

# UPDATE ON THE FINANCIAL HEALTH OF FARM COUNTRY

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## HEARING BEFORE THE SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT OF THE COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

JUNE 2, 2015

**Serial No. 114–15**



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## CONTENTS

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	Page
Conaway, Hon. K. Michael, a Representative in Congress from Texas, opening statement .....	3
Crawford, Hon. Eric A. “Rick”, a Representative in Congress from Arkansas, opening statement .....	1
Prepared statement .....	2
Walz, Hon. Timothy J., a Representative in Congress from Minnesota, opening statement .....	2
WITNESSES	
Kauffman, Ph.D., Nathan S., Assistant Vice President, Economist, and Omaha Branch Executive, Omaha Branch, Federal Reserve Bank of Kansas City, Omaha, NE .....	4
Prepared statement .....	6
Combs, Paul T., rice, soybean, cotton, corn, and wheat producer and farm equipment dealer, Kennett, MO .....	22
Prepared statement .....	24
Verett, Steve, cotton, sorghum, and wheat producer, Lubbock, TX .....	28
Prepared statement .....	30
Brantley III, L. Dow, rice, cotton, corn, and soybean producer, England, AR .....	34
Prepared statement .....	36
Paap, Kevin, corn and soybean producer, Garden City, MN .....	39
Prepared statement .....	40



## **UPDATE ON THE FINANCIAL HEALTH OF FARM COUNTRY**

**TUESDAY, JUNE 2, 2015**

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK  
MANAGEMENT,  
COMMITTEE ON AGRICULTURE,  
*Washington, D.C.*

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 1300, Longworth House Office Building, Hon. Eric A. “Rick” Crawford [Chairman of the Subcommittee] presiding.

Members present: Representatives Crawford, Lucas, Neugebauer, Rogers, Austin Scott of Georgia, LaMalfa, Allen, Bost, Abraham, Conaway (*ex officio*), Walz, Graham, Ashford, David Scott of Georgia, Costa, Kirkpatrick, and Peterson (*ex officio*).

Staff present: Bart Fischer, Callie McAdams, Haley Graves, Jessica Carter, Matt Schertz, Mollie Wilken, Skylar Sowder, Faisal Siddiqui, John Konya, Anne Simmons, Liz Friedlander, Mike Stranz, and Nicole Scott.

### **OPENING STATEMENT OF HON. ERIC A. “RICK” CRAWFORD, A REPRESENTATIVE IN CONGRESS FROM ARKANSAS**

The CHAIRMAN. This hearing of the Subcommittee on General Farm Commodities and Risk Management regarding an update on the financial health of farm country, will come to order. During the farm bill debate, we heard a good bit about the relatively high prices farmers are receiving for their crops, and the suggestion was made by at least some folks that it was a good a time as any to discontinue the farm bill. Now that we are in year 2 of the farm bill, I thought it would be appropriate to take a look at the financial conditions in farm country today and assess what might have happened had those folks had their way.

Farm prices for many crops have dropped dramatically since the farm bill debate. Input costs continue to rise. Mother Nature continues to wreak havoc on some regions of the country. Foreign competitors are sharply increasing their subsidies, tariffs, and non-tariff trade barriers, and sadly even the U.S. Government is adding hurdles for farmers and ranchers to overcome. The EPA is pushing new and costly regulations. Some in this country are standing in the way of critical tax relief, ranging from a permanent section 179 and bonus depreciation to repeal of the death tax. Some have even proposed to eliminate stepped-up basis, which is absolutely essential to passing on the family farm.

Today's panel will provide valuable insights on how these and other factors are impacting America's farmers and ranchers and speak to the importance of U.S. farm policy. I am looking forward to hearing their testimony.

[The prepared statement of Mr. Crawford follows:]

PREPARED STATEMENT OF HON. ERIC A. "RICK" CRAWFORD, A REPRESENTATIVE IN  
CONGRESS FROM ARKANSAS

This hearing on the financial health of farm country, will come to order.

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Farm prices for many crops have dropped dramatically since the farm bill debate. Inputs costs continue to rise. Mother Nature continues to wreak havoc on some regions of the country. Foreign competitors are sharply increasing their subsidies, tariffs, and non-tariff trade barriers. And, sadly, even the U.S. Government is adding hurdles for farmers and ranchers to overcome. The EPA is pushing new and costly regulations. Some in this country are standing in the way of critical tax relief, ranging from a permanent section 179 and bonus depreciation to repeal of the death tax. Some have even proposed to eliminate stepped up basis, which is absolutely essential to passing on the family farm.

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But, before we get to our first panel, I would like to recognize my good friend, the Ranking Member, for any opening comments he may have.

The CHAIRMAN. But before we go to our first panel, I want to recognize my good friend, the Ranking Member, my friend from Minnesota, Mr. Walz, for any comments he may have.

**OPENING STATEMENT OF HON. TIMOTHY J. WALZ, A  
REPRESENTATIVE IN CONGRESS FROM MINNESOTA**

Mr. WALZ. Well, I thank the Chairman and thank the Chairman of the full Committee, Mr. Conaway, again for holding these important hearings. I would like to welcome all our witnesses here today, and thank you for taking time out of your busy schedule to engage in this and help us understand.

I would like give a special thank you and shout out to my friend and constituent, Kevin Paap, from southern Minnesota. If you want to talk about dedication to being here today, it is Kevin and Julie's anniversary today, and in 2 days his son Andy is getting married.

So I don't envy you when you go back home, Kevin. But thank you so much. You are dedicated to getting this done.

One thing is clear; it is something that we all can agree on: When the farm economy is healthy, Main Street economy is healthy. As lawmakers, we rely on boots-on-the-ground expertise to help us navigate the proper course for ag policy. We write the farm bill for the bad times, not the good. The tough part is that farming is not monolithic and one size fits all. When commodity prices are down, livestock prices may be up, and other things go in that direction also.

The financial health of the sector is also significantly influenced by external factors. Drought, flood, disaster, and disease all have an impact which ripples through our entire economy, especially our rural economy. In the Midwest, and in Minnesota specifically, we

are facing a calamity right now with the onset of avian flu. This outbreak places a financial and emotional strain on the producers impacted. And you don't even have to have a flock test positive on this. The stress created by the possibility of loss is out there. I heard one producer say it is like living in a constant tornado warning every single day. We will continue to fight to ensure the resources are in place to combat this and other disasters coming up.

When addressing the financial health of farm country, I do think there are a few universal themes we can broadly apply. First and foremost, risk management is the key. Without robust and effective programs, the industry will falter. Second, we need to do everything we can to promote the next generation of farmers by providing strong risk-management programs, readily available credit, and world-class research and education.

Finally, the sustainable health of our soil and resources is paramount. Farmers are some of the best conservationists in this regard. It just makes good business sense. We must continue to provide the tools to maintain the health of our resources.

With that, I would like to thank the Chairman again for holding these important hearings, and I really look forward to hearing from our witnesses.

I yield back.

The CHAIRMAN. I thank the gentleman.

I would recognize full Committee Chairman, Mr. Conaway, if he has any opening remarks.

**OPENING STATEMENT OF HON. K. MICHAEL CONAWAY, A  
REPRESENTATIVE IN CONGRESS FROM TEXAS**

Mr. CONAWAY. No opening remarks. I just want to thank the witnesses for being here and look forward to their testimony.

The CHAIRMAN. I thank the Chairman.

I would remind Members that they will be recognized for questioning in order of seniority for Members who were present at the start of the hearing. After that, Members will be recognized in order of their arrival. I appreciate Members' understanding.

I want to introduce the panel really quick. I am going to go through four, and then I would defer to Mr. Neugebauer for just a minute. We have a great panel today. I think we are going to get some great insight as to what is happening at home with regard to the implementation of the farm bill.

First, let me welcome Dr. Nathan Kauffman, Assistant Vice President and Omaha Branch Executive, Federal Reserve Bank of Kansas City, Omaha, Nebraska.

Thank you, sir, for being here.

Mr. Paul T. Combs from Kennett, Missouri. He is a rice, soybean, corn, and wheat producer in addition to being a farm equipment dealer.

Thank you, Mr. Combs, for being here.

Mr. Dow Brantley is from my district. I am pleased to have him here. He is a very diversified producer from England, Arkansas, producing cotton, corn, soybeans, and rice.

And, finally, Mr. Walz, I would defer to you to introduce your constituent if you would like.

Mr. WALZ. Well, as I said, Kevin is a long-time producer out in Garden City, Minnesota, in southern Minnesota, Blue Earth County; has been a leading voice in ag; and is also our current Minnesota Farm Bureau President.

So, thank you, Kevin.

The CHAIRMAN. And, finally, Mr. Neugebauer, I would recognize you to make an introduction.

Mr. NEUGEBAUER. Well, I thank you, Mr. Chairman, and thank you for having this hearing.

The title of this hearing is *Update on the Financial Health of Farm Country*, and I can't think of anybody that knows more about the financial health of farm country than my good friend and constituent, Steve Verett. Steve has been the Executive Vice President of the Plains Cotton Growers for 18 years, but he has been farming for 38 years and plants all of the major crops in our area, cotton, sorghum, wheat, sunflowers.

There is one little trivia note here that is something that Steve and I have in common, and that is that we both received a degree from Texas Tech in accounting. So I am glad to have Steve here today, and I appreciate him taking time out of his busy schedule because what you don't know is it has been raining nonstop in Lubbock, Texas, and in Texas, and this is planting time. So Steve is taking valuable time away from his planting time to come up here and testify, and I appreciate that.

The CHAIRMAN. Wow, we have at least four CPAs in the room. Mr. Combs is also a CPA. Our Committee Chairman is a CPA. I don't know what to do with all these tax guys in the room at one time.

Thank you, members of our panel. We appreciate you being here.

Just one quick note, just as a reminder, you have 5 minutes. Our lights should be working. Once you see the yellow light, it is just like when you are driving, step on the gas. And when you see red, stop. We will do that in the interest of making sure all of our Members have time to ask questions, and we want to get as much information from you as possible.

So, with that, I will introduce our first panelist, Dr. Nathan Kauffman, Assistant Vice President, Omaha Branch Executive, Federal Reserve Bank of Kansas City.

Dr. Kauffman, you are recognized.

**STATEMENT OF NATHAN S. KAUFFMAN, Ph.D., ASSISTANT VICE PRESIDENT, ECONOMIST, AND OMAHA BRANCH EXECUTIVE, OMAHA BRANCH, FEDERAL RESERVE BANK OF KANSAS CITY, OMAHA, NE**

Dr. KAUFFMAN. Good morning, and thank you, Mr. Chairman, and Members of the Subcommittee.

My name is Nathan Kauffman, and I am an Economist and Omaha Branch Executive with the Federal Reserve Bank of Kansas City, a regional reserve bank that has long devoted significant attention to U.S. agriculture. In my role, I lead several efforts to track the agricultural and rural economy, including a regional agricultural credit survey and the Federal Reserve System's *Agricultural Finance Databook*, a national survey of agricultural lending activity at commercial banks. I am pleased to share with you the



following information on recent developments in the financial conditions in U.S. agriculture. Before I begin, let me emphasize that my statement represents my view only and is not necessarily that of the Federal Reserve System or any of its representatives.

The outlook for the U.S. agricultural economy has shifted significantly over the past 2 years following several years of historically high farm income, primarily driven by strong demand for agricultural products and high commodity prices. Farm income has dropped considerably since 2013. According to the U.S. Department of Agriculture, net farm income in 2015 is projected to be about 43 percent less than the record high set in 2013.

The drop in farm income has primarily been due to lower prices of major U.S. row crops combined with production costs that have remained persistently high. For example, corn prices are currently about 50 percent less than in 2013, and soybean prices have dropped more than 30 percent during the same timeframe. Despite the lower commodity prices, however, input costs have remained relatively high, causing profit margins to weaken notably over the past 2 years.

Quarterly surveys of agricultural banks conducted by regional Federal Reserve banks have also pointed to reduced farm income. According to the Kansas City Fed's survey, farm income has declined in every quarter since mid-2013 when compared with the same quarter in the preceding year. Bankers surveyed by other Federal Reserve districts have reported similar reductions in farm income despite extraordinarily high profit margins in U.S. cattle, hog, and dairy sectors in 2014.

Weaker farm income and reduced cash flow, particularly in the crop sector, have also caused farmland prices to decline from their recent record highs. After posting annual gains of 25 to 35 percent between 2010 and 2012, Federal Reserve surveys show that farmland values have steadily decreased over the past year in Iowa, Illinois, Nebraska, and Minnesota, and these are four states that collectively account for more than  $\frac{1}{2}$  of total U.S. corn production.

Ongoing declines in farm income and reduced levels of working capital have caused the financial conditions of crop producers to worsen recently. Federal Reserve surveys show that farm loan repayment rates at commercial banks have steadily weakened since 2013 in states concentrated in row crop production. In a March 2015 survey of agricultural credit conditions conducted by the Federal Reserve Bank of Kansas City, more than 60 percent of responding banks reported a modest deterioration in the financial conditions of crop producers relative to the previous year.

As cash flow has declined, more producers have also needed external financing to pay for operating expenses and capital purchases. The Federal Reserve's *Agricultural Finance Databook* included with my written testimony shows that the volume of new short-term farm loan originations has increased by an annual average of 20 percent since the beginning of 2014. Increased loan demand has also been supported by livestock loans for the purchase of feeder cattle where prices remain near historical highs.

To briefly summarize, the risk associated with agricultural production in the U.S. appears to have increased since 2013 and through 2014, particularly in row crop production. Farmers with

especially high production costs and high levels of debt will likely face additional financial stress in the coming months if the current environment in crop sector profit margins persist. Although a farm crisis on the scale of the 1980s seems unlikely at this point, there does appear to be growing concern among agricultural lending institutions that the level of financial stress in the sector overall may intensify over the next 6 to 12 months.

This concludes my formal remarks, and I would be happy to answer any questions at the appropriate time. Thank you.

[The prepared statement of Dr. Kauffman follows:]

PREPARED STATEMENT OF NATHAN S. KAUFFMAN, PH.D., ASSISTANT VICE PRESIDENT, ECONOMIST, AND OMAHA BRANCH EXECUTIVE, OMAHA BRANCH, FEDERAL RESERVE BANK OF KANSAS CITY, OMAHA, NE

Thank you, Mr. Chairman, and Members of the Subcommittee. My name is Nathan Kauffman, and I am Assistant Vice President and Economist at the Federal Reserve Bank of Kansas City, a regional Reserve Bank that has long devoted significant attention to U.S. agriculture. In my role, I lead several efforts to track the agricultural and rural economy, including a regional agricultural credit survey and the Federal Reserve System's *Agricultural Finance Databook*, a national survey of agricultural lending activity at commercial banks. I am pleased to share with you the following information on recent developments in the financial conditions in U.S. agriculture. Before I begin, let me emphasize that my statement represents my view only and is not necessarily that of the Federal Reserve System or any of its representatives.

#### **Farm Income Conditions and Farmland Values**

The outlook for the U.S. agricultural economy has shifted significantly over the past 2 years. Following several years of historically high farm income, primarily driven by strong demand for agricultural products and high commodity prices, farm income has dropped considerably since 2013. According to the U.S. Department of Agriculture, net farm income in 2015 is projected to be about 43 percent less than the record high set in 2013.

The drop in farm income has primarily been due to lower prices of major U.S. row crops combined with production costs that have remained persistently high. For example, corn prices are currently about 50 percent less than in 2013 and soybean prices have dropped more than 30 percent over the same time frame. Despite the lower commodity prices, input costs have remained relatively high, causing profit margins to weaken notably over the past 2 years.

Quarterly surveys of agricultural banks conducted by regional Federal Reserve Banks have also pointed to reduced farm income. According to the Kansas City Fed's survey, farm income has declined in every quarter since mid-2013 when compared with the same quarter in the preceding year. Bankers surveyed by other Federal Reserve Districts have reported similar reductions in farm income despite extraordinarily high profit margins in U.S. cattle, hog, and dairy sectors in 2014.

Weaker farm income and reduced cash flow, particularly in the crop sector, have also caused farmland prices to decline from their recent record highs. After posting annual gains of 25 to 35 percent between 2010 and 2012, Federal Reserve surveys show that farmland values have steadily decreased over the past year in Iowa, Illinois, Nebraska, and Minnesota. These four states collectively account for more than ½ of total U.S. corn production.

#### **Agricultural Lending and Credit Conditions**

Ongoing declines in farm income and reduced levels of working capital have caused the financial condition of crop producers to deteriorate recently. Federal Reserve surveys show that farm loan repayment rates at commercial banks have steadily weakened since 2013 in states concentrated in row crop production. In a March 2015 survey of agricultural credit conditions conducted by the Federal Reserve Bank of Kansas City, more than 60 percent of responding banks reported a modest deterioration in the financial conditions of crop producers relative to the previous year.

As cash flow has declined, more producers have also needed external financing to pay for operating expenses and capital purchases. The Federal Reserve's *Agricultural Finance Databook*, included in the material that follows, shows that the volume of new, short-term farm loan originations has increased by an annual average

of 20 percent since the beginning of 2014. Increased loan demand has also been supported by livestock loans for the purchase of feeder cattle, where prices remain near historical highs.

To briefly summarize, the risk associated with agricultural production in the U.S. appears to have increased since 2013, particularly in row crop production. Farmers with especially high production costs and high levels of debt will likely face additional financial stress in the coming months if the current environment in crop sector profit margins persists. Although a farm crisis on the scale of the 1980s seems unlikely at this point, there appears to be growing concern among agricultural lending institutions that the level of financial stress in the sector, overall, may also intensify over the next 6 to 12 months.

The following material, published by the Federal Reserve Bank of Kansas City, is also included with my written statement to provide additional detail on recent developments in the financial conditions of U.S. agriculture.

#### ATTACHMENT 1

#### ***Federal Reserve Bank of Kansas City: Agricultural Credit Survey (May 2015)*** **“Agricultural Credit Conditions Weaken”**

By Nathan Kauffman, Assistant Vice President and Omaha Branch Executive,  
Cortney Cowley, Economist and Maria Akers, Associate Economist

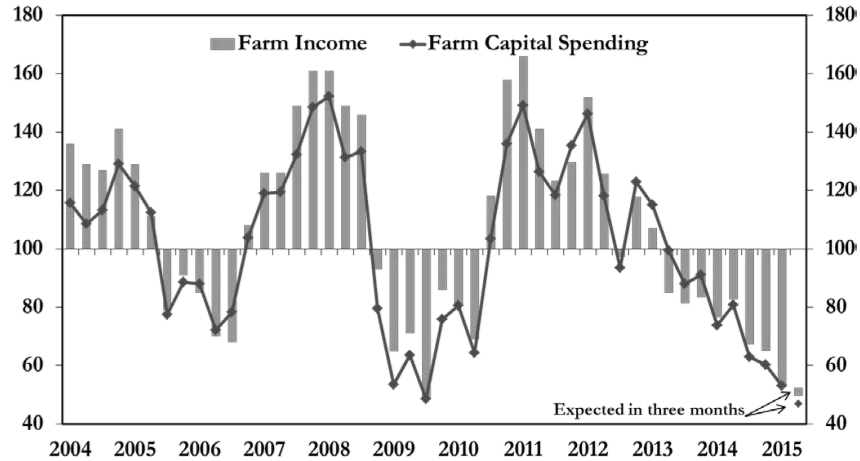
##### *Summary*

Credit conditions in the Federal Reserve’s Tenth District weakened as farm income declined further in the first quarter of 2015. Persistently low crop prices and high input costs reduced profit margins and increased concerns about future loan repayment capacity. Funds were available to meet historically high loan demand, but loan repayment rates dropped considerably. Although profit margins in the livestock industry have remained stable, most bankers do not expect farm income or credit conditions to improve in the next 3 months. Reduced incomes in the crop sector trimmed the value of non-irrigated and irrigated cropland, but steady profitability in the cattle sector supported higher prices for ranchland.

##### *Farm Income*

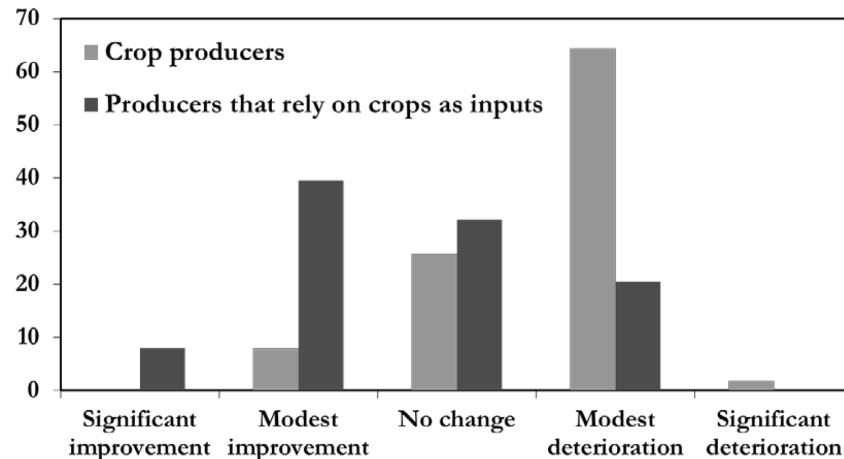
Farm income continued to decline in the first quarter of 2015 (*Chart 1*). Reduced supplies from winter wheat kill and persistently low crop prices have tightened revenues for crop producers. Despite poor winter wheat conditions in parts of the Tenth District that may limit production, wheat prices have remained around 30 percent less than a year ago. Similarly, as of the end of April, corn prices were about 27 percent less than the previous year. Moreover, since July 2014, the monthly average price of corn has been less than \$4.00 per bushel, generally below what some bankers noted is the breakeven cost of production for corn producers. Although many livestock operators have profited from lower feed grain costs, crop production costs have remained relatively high.

Weaker profit margins and reduced cash flows caused financial conditions to weaken for many crop producers in the District. In fact, more than 60 percent of survey respondents reported a modest deterioration from a year ago in the financial conditions of crop producers (*Chart 2*). In contrast, nearly ½ of respondents indicated that financial conditions have improved over the past year for borrowers that rely on crops as inputs, such as cattle, hog, poultry and dairy producers.

**Chart 1: Tenth District Farm Income and Capital Spending***Diffusion Index \***Diffusion Index \**

2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015

\* Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.

**Chart 2: Overall Change in Financial Conditions, Relative to One Year Ago***Percent of Respondents*

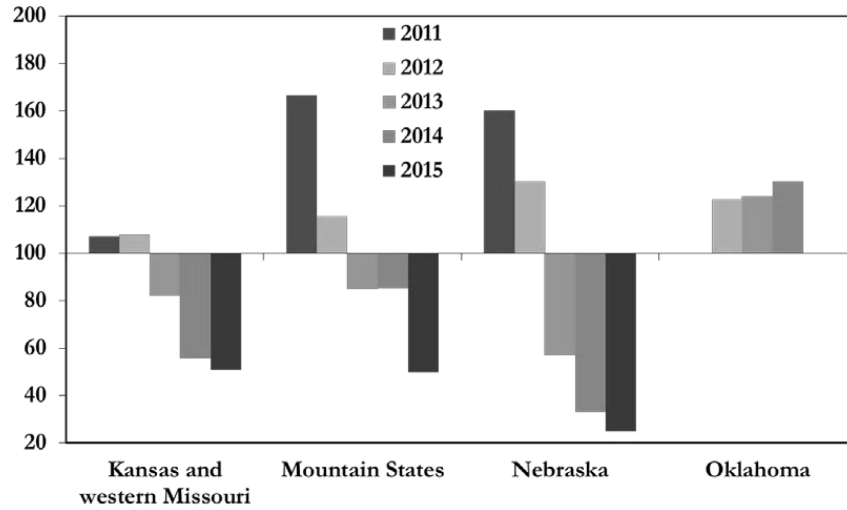
On a more regional level, farm income declined in all District states except Oklahoma. In Oklahoma, farm income has steadily improved over the last 3 years due to revenue from mineral rights and cattle production but remained unchanged in the first quarter of 2015 (*Chart 3*). Although farm income held steady in Oklahoma, a greater portion of agricultural lenders reported farm income was lower than a year ago in Kansas, western Missouri, Nebraska and the Mountain States (Colorado, northern New Mexico and Wyoming).

Strains on the farm economy have begun to affect the overall economic outlook in some states. Through 2014, growth in per capita personal income was notably smaller in states most heavily concentrated in crop production (*Map*). For example, per capita personal income expanded less than 1.0 percent in Iowa and South Dakota and declined slightly in Nebraska. These growth rates were significantly weak-

er than the national average of 3.9 percent from 2013 to 2014. Ninety-four percent of survey respondents expect farm income to remain the same or decline further in the next 3 months. Additional declines in farm income could continue to create economic challenges in states heavily dependent on crops.

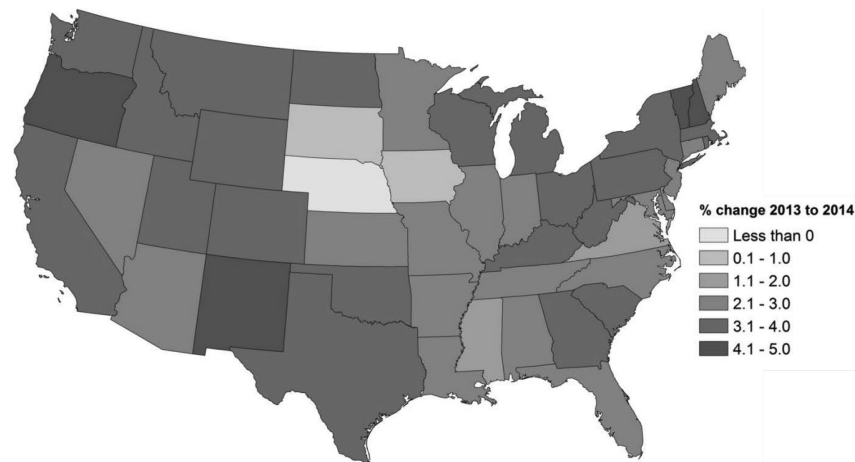
### Chart 3: Tenth District Farm Income, First Quarter

*Diffusion Index \**



\* Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.

### Map: Per Capita Personal Income



### Farm Loan Demand and Credit Conditions

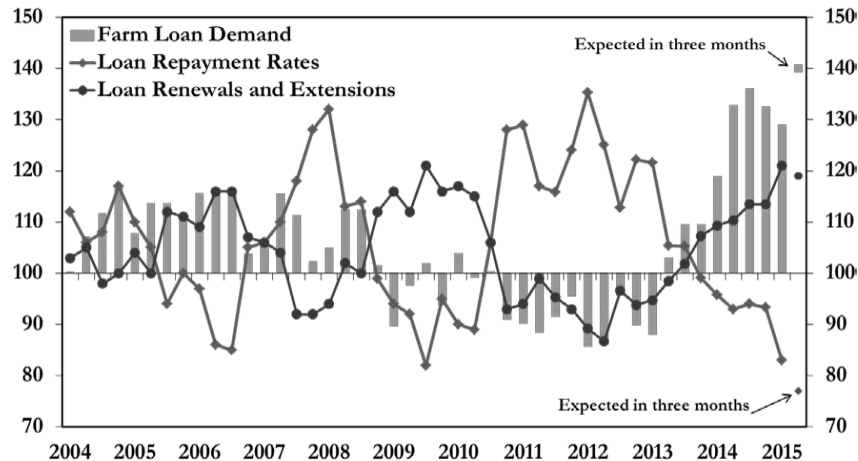
The continued decline in farm income boosted demand for new loans as well as renewals and extensions on existing loans (*Chart 4*). During years of historically high farm income, some farmers were able to self-finance. However, as working capital has declined due to high production costs and lower crop revenues, more producers have needed external financing to pay for operating expenses and capital

purchases. Loan demand was also supported by livestock loans on feeder cattle, which still command historically high prices. In fact, demand for non-real estate farm loans increased across all District states in the first quarter and is expected to remain elevated over the next 3 months (*Chart 5*). If expectations are met, the survey measure of loan demand would be the highest since the survey began in 1980.

**Chart 4: Tenth District Credit Conditions**

*Diffusion Index \**

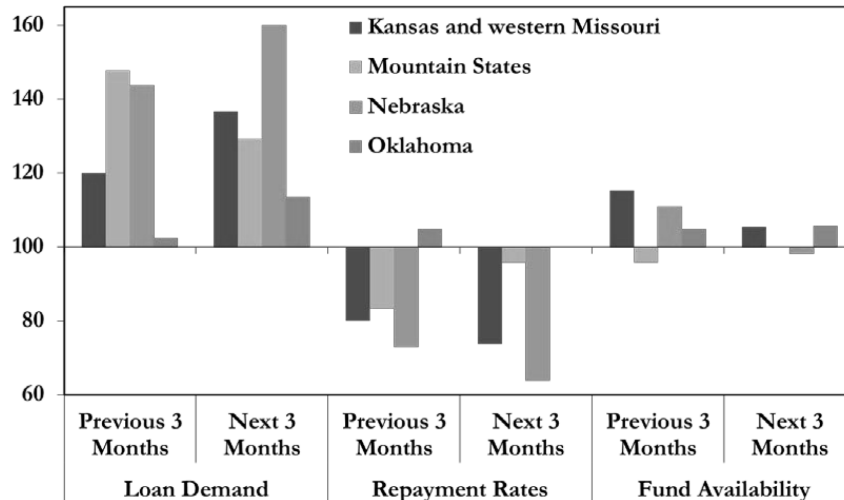
*Diffusion Index \**



\* Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.

**Chart 5: Tenth District Credit Conditions, First Quarter 2015**

*Diffusion Index \**



\* Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the

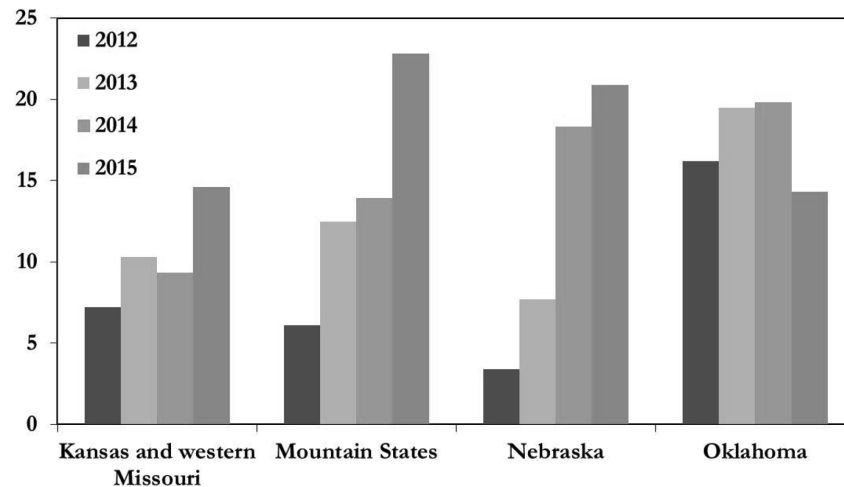
percentage of bankers who responded “lower” from the percentage who responded “higher” and adding 100.

Alongside reduced farm income and higher loan demand, loan repayment rates have declined significantly. More than 26 percent of survey respondents reported that loan repayment rates declined in the first quarter of 2015, compared to 17 percent in the previous quarter. Moreover, the expectation for loan repayment rates in the next 3 months was the lowest since 2003, and, if expectations hold, could be the first time in several years that repayment rates decline in all District states.

The deterioration in loan repayment rates has not yet affected fund availability, which increased slightly in the first quarter. Of banks responding to the survey, 98.8 percent indicated that no loans were reduced or refused due to a shortage of funds. Still, collateral requirements remained the same or increased slightly for most farm loans throughout the District due to concerns over reduced working capital and annual increases in carry-over debt (*Chart 6*). Bankers also expressed concerns over increased debt-to-asset ratios, especially for younger farmers with high borrowing needs.

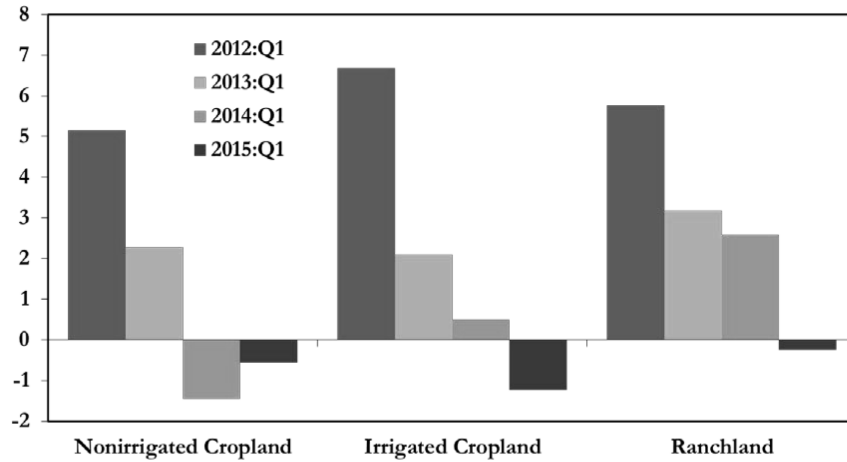
**Chart 6: Borrowers with an Increase in Carry-over Debt, First Quarter**

*Percent*

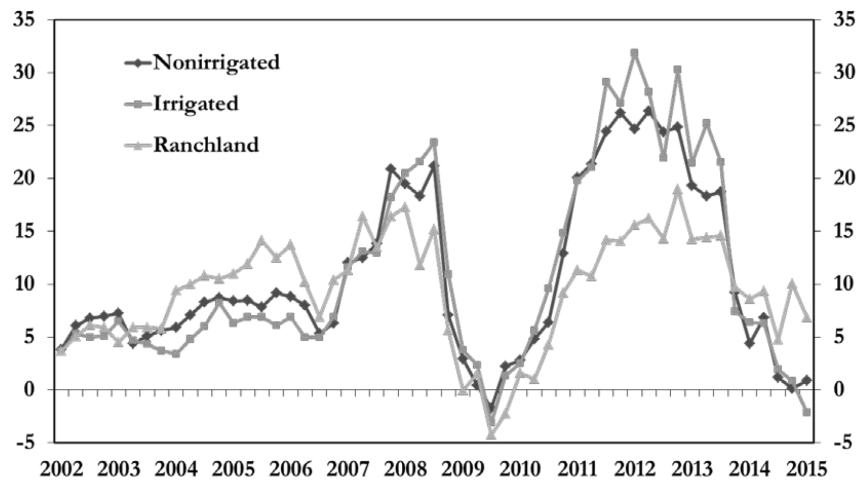


*Farmland Values*

Amid further declines in farm income, bankers reported that Tenth District cropland values edged down in the first quarter (*Chart 7*). In fact, irrigated cropland values declined in the first quarter, falling slightly below year-ago levels for the first time in more than 5 years (*Chart 8*). The value of non-irrigated cropland also declined, but was holding just above year-ago levels. Similar to previous surveys, Nebraska posted some of the largest price declines while cropland values in Oklahoma and the Mountain States remained the most resilient (*Table*). Looking ahead, very few bankers expect price appreciation and more than a quarter of survey respondents expect cropland values to decline further in the next 3 months (*Chart 9*). Still, a majority of bankers anticipates that cropland values will hold steady, partly due to a limited supply of farms for sale.

**Chart 7: Tenth District Farmland Values, Quarterly Gains***Percent Change from the Previous Year \**

\* Percent changes are calculated using responses only from those banks reporting in both the past and current quarters.

**Chart 8: Tenth District Farmland Values, Annual Gains***Percent Change from the Previous Year \**

\* Percent changes are calculated using responses only from those banks reporting in both the past and current quarters.

**Table: Tenth District Farmland Value Gains by State, First Quarter 2015***Percent Change from Previous Year \**

	Nonirrigated	Irrigated	Ranchland
Kansas	0.2	-2.4	5.0
Missouri	0.9	** N/A	3.9
Nebraska	-0.6	-3.6	10.1
Oklahoma	6.8	5.6	5.3
Mountain States ***	6.4	2.7	11.4



**Table: Tenth District Farmland Value Gains by State, First Quarter 2015—Continued**

Percent Change from Previous Year \*

	Nonirrigated	Irrigated	Ranchland
Tenth District	0.9	-2.1	6.8

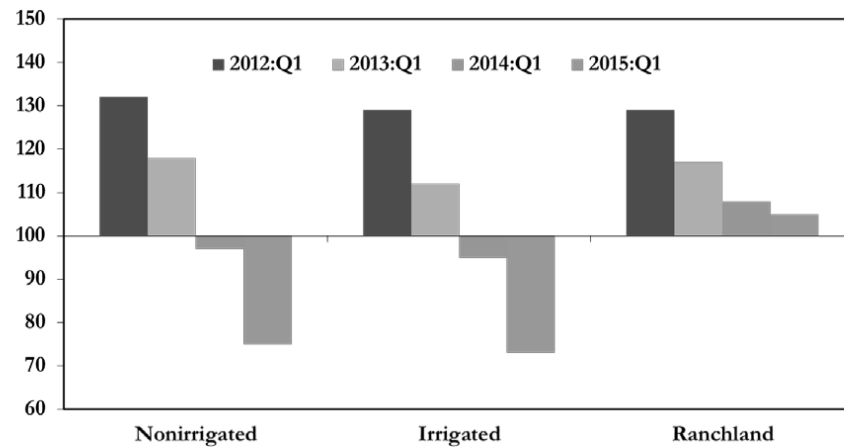
\*Percent changes are calculated using responses only from those banks reporting in both the past and current quarters.

\*\* Not reported due to small sample size.

\*\*\* Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state.

**Chart 9: Expected Trend in Tenth District Farmland Values**

*Diffusion Index \**



\* Bankers responded to each item by indicating whether they expected land values would increase, decrease, or remain the same. The index numbers are computed by subtracting the percentage of bankers who responded “decrease” from the percentage who responded “increase” and adding 100.

Tenth District ranchland values generally held firm in the first quarter of 2015 and year-over-year gains remained strong. In contrast to the crop sector, where lower incomes were starting to place downward pressure on cropland values, bankers reported profits in the cattle sector were continuing to support high ranchland values. Ranchland in Nebraska and the Mountain States appreciated the most during the past year with somewhat smaller gains reported in Kansas and Oklahoma, due in part to dry pasture conditions. Looking ahead, bankers expect continued strength in the cattle sector and increasing cattle inventories will sustain demand, and prices, for ranchland.

#### *Conclusion*

Low crop prices placed added stress on net farm incomes and contributed to weaker credit conditions in the first quarter. As farm incomes fell, cropland values moderated and more producers depended on financing to cover operating expenses. Sufficient funds were available to meet increases in loan demand, but declines in repayment rates as well as slight increases in carry-over debt, collateral requirements and loan renewals and extensions suggest that credit quality may become more of a concern moving forward.

***Federal Reserve Bank of Kansas City: Agricultural Finance Databook (April 2015)***

**“Loan Volumes Continue Rising as Lower Farm Incomes Persist”**

By Nathan Kauffman, Assistant Vice President and Omaha Branch Executive,  
Cortney Cowley, Economist

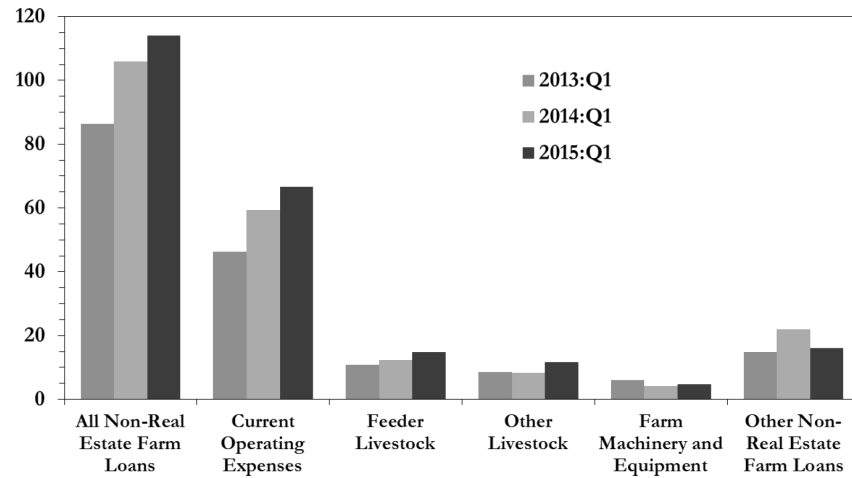
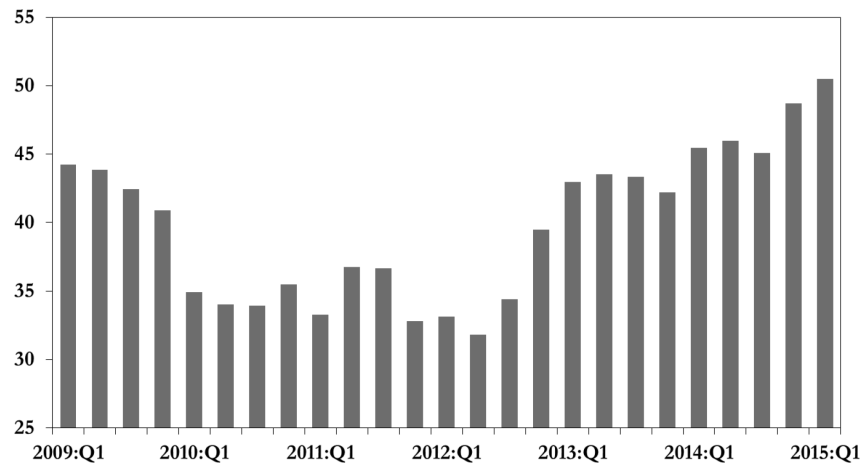
*Summary*

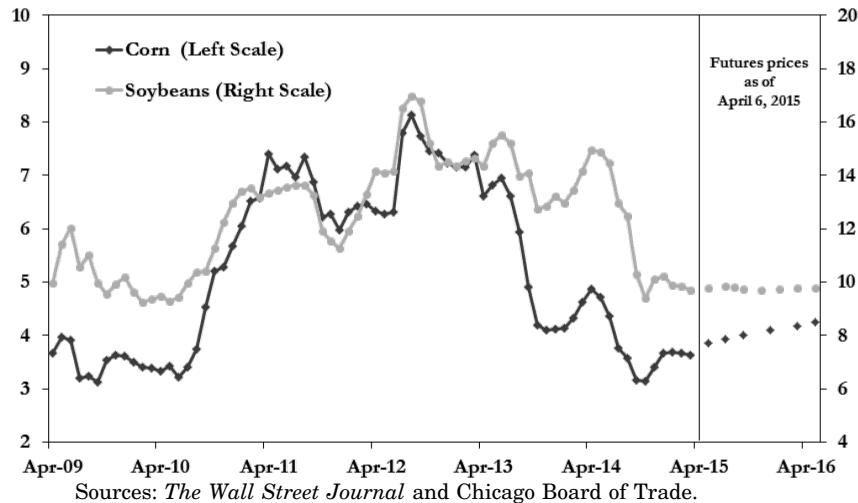
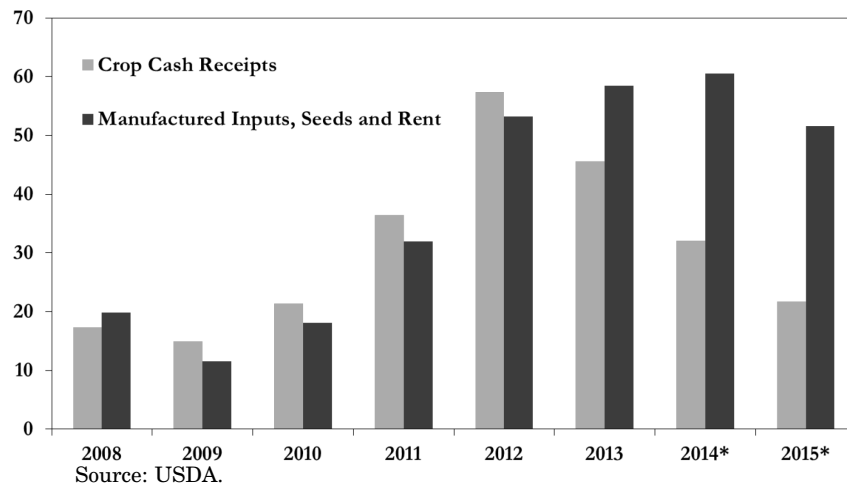
Loan volumes for almost all farming purposes rose at commercial banks, as many producers contended with tighter profit margins. Persistently low crop prices and elevated input costs continued to increase farmers’ short-term financing needs. High prices for feeder cattle further boosted loan volumes in the livestock sector. Agricultural input costs were expected to decline in 2015, but cash receipts were expected to drop further, keeping profit margins tight for many producers. Lower farm incomes kept loan demand strong throughout the Federal Reserve Districts surveyed, while loan repayment rates were slightly weaker. Despite reduced farm incomes and increased debt outstanding, loan delinquency rates declined, and profits increased slightly at most agricultural banks. Lower farm incomes also affected farmland values, but the changes varied widely among states. Farmland values in crop-intensive states decreased slightly, while demand strengthened for good-quality farmland and rangeland in states more concentrated in livestock production or with wealth generated from other sources, such as oil and natural gas exploration.

*Section A—First Quarter National Farm Loan Data*

Agricultural lending continued to grow in the first quarter of 2015. The national Survey of Terms of Bank Lending to Farmers, conducted during the first full week of February, indicated the total volume of non-real estate farm loans was \$8.1 billion more than in the same period in 2014 (*Chart 1*). Overall growth in loan volume was driven by increased borrowing for current operating expenses and livestock purchases. Current operating loan volumes grew for the third year in a row following several quarters of depressed crop prices (*Charts 2 and 3*). Demand for operating loans could remain elevated as futures markets for fall crops show prices are expected to remain low due to the possibility of another record harvest.

The USDA projected plantings report showed soybean acreage could rise to record levels in 2015. Corn acreage was expected to decline for the third consecutive year, but the corn crop was still projected to be the third largest in history. As in 2014, large corn and soybean harvests could keep crop prices comparatively low, which would further weaken cash receipts for fall crops (*Chart 4*). This year, input costs were expected to decline less than crop cash receipts, which could put additional downward pressure on farm income and further increase the need for financing to cover expenses.

**Chart 1: Non-Real Estate Farm Loan Volumes by Purpose***Billion Dollars*Source: *Agricultural Finance Databook*, Table A.3.**Chart 2: Current Operating Loan Volume***Billion Dollars, Four Quarter Moving Average*Source: *Agricultural Finance Databook*, Table A.3

**Chart 3: U.S. Corn and Soybean Prices***Dollars per Bushel**Dollars per Bushel***Chart 4: U.S. Crop Cash Receipts and Input Costs***Percent Change from 2007*

Livestock loan volumes increased in the first quarter of 2015 as profit margins in the cattle sector reacted to another quarter of strong prices for feeder cattle. Profit margins tightened for feedlot operators, while cow/calf producers experienced better margins due to high cattle prices and low feed costs. Lending for feeder livestock increased more than 20 percent as producers rebuilt their herds and feedlot operators dealt with increasing costs (*Chart 5*). Following several years of herd liquidation, in 2014, cattle operations switched from liquidation to expansion and the U.S. cattle herd grew by 2.1 percent. As cattle inventories rebounded slightly, feeder cattle prices softened in the first quarter of 2015 but remained historically high. High feeder cattle prices continued to sustain livestock loan volumes but could moderate.

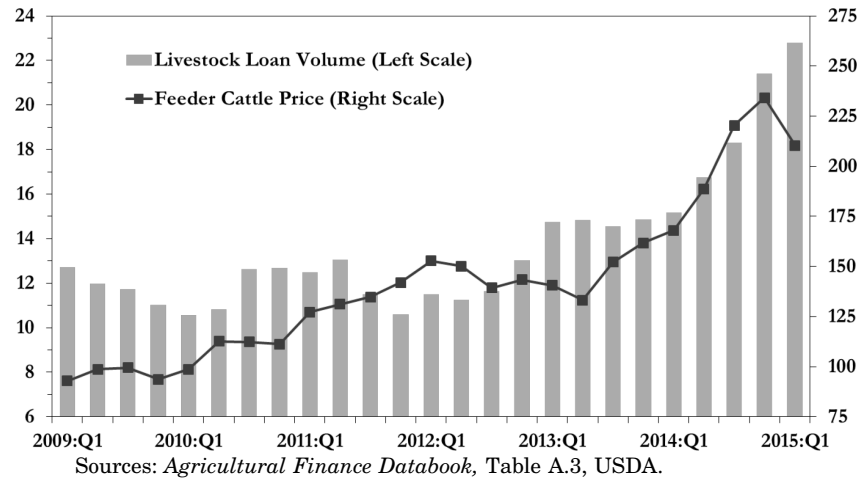
In the hog sector, loan volumes rose as declining hog prices resulted in reduced profit margins. The drop in hog prices over the last two quarters was primarily the result of a growing U.S. hog herd. Hog inventories began rebounding in the second ½ of 2014, following massive reductions during the porcine epidemic diarrhea virus

outbreak (*Chart 6*). Since June 2014, hog prices have dropped 40 percent, causing hog producers to depend more on lending to maintain inventories and cover operating expenses.

**Chart 5: Livestock Loan Volume and Feeder Cattle Price**

*Billion Dollars, Four Quarter Moving Average*

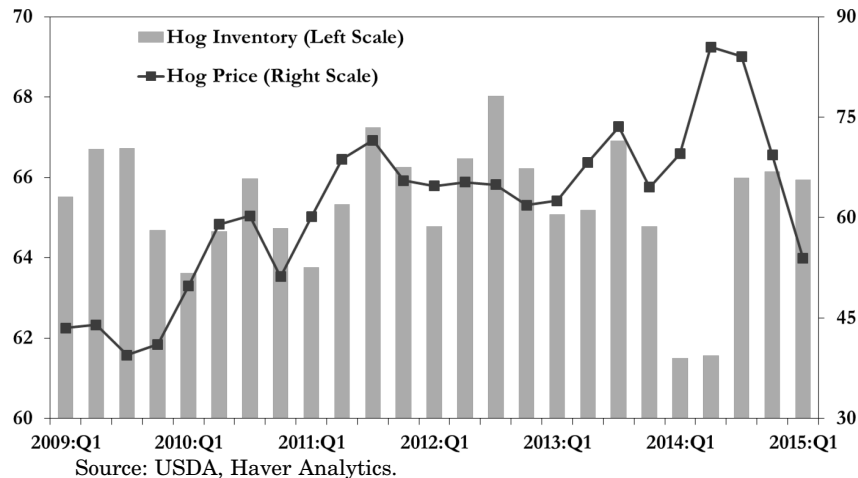
*Dollars per Hundredweight*



**Chart 6: Hog Inventory and Price**

*Million Hogs*

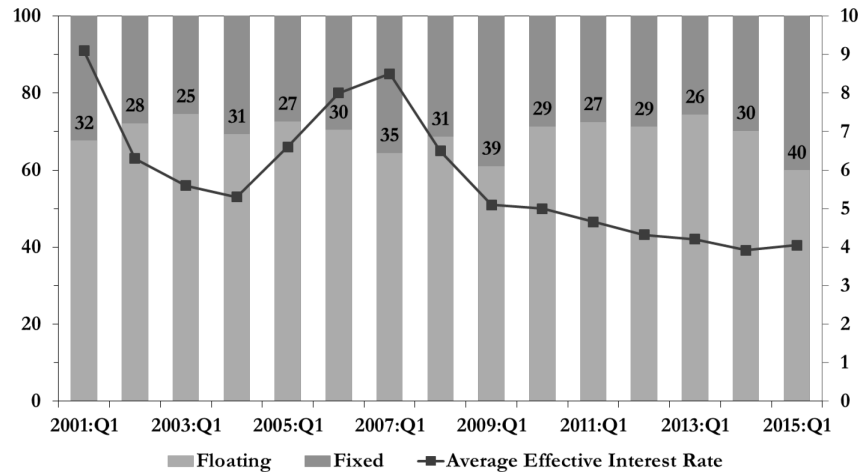
*Dollars per Hundredweight*



Although farm sector lending has continued to rise, the share of farm loans made with fixed interest rates increased notably in the first quarter of 2015. Between the first quarters of 2013 and 2015, the share of all non-real estate farm loans with fixed interest rates rose from 26 percent to 40 percent, respectively (*Chart 7*). This shift from floating to fixed interest rates was most pronounced for livestock loans, excluding feeder livestock, and farm machinery and equipment loans (*Chart 8*). Interest rates on non-real estate farm loans increased modestly in the first quarter of 2015, after declining steadily since 2007, and this uptick could have prompted more farmers to further “lock-in” at historically low rates.

**Chart 7: Shares of Non-Real Estate Bank Loans with Floating and Fixed Interest Rates Made to Farmers**

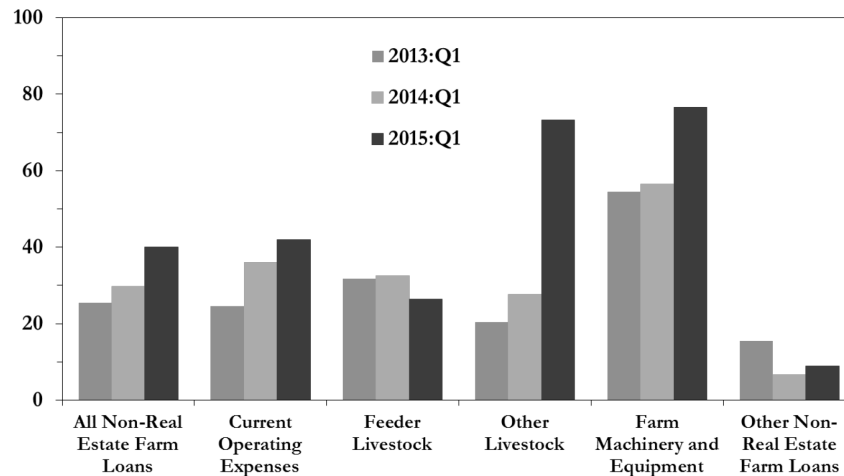
Percent



Sources: *Agricultural Finance Databook*, Tables A.5 and A.6.

**Chart 8: Shares of Non-Real Estate Farm Loans with Fixed Interest Rates by Purpose**

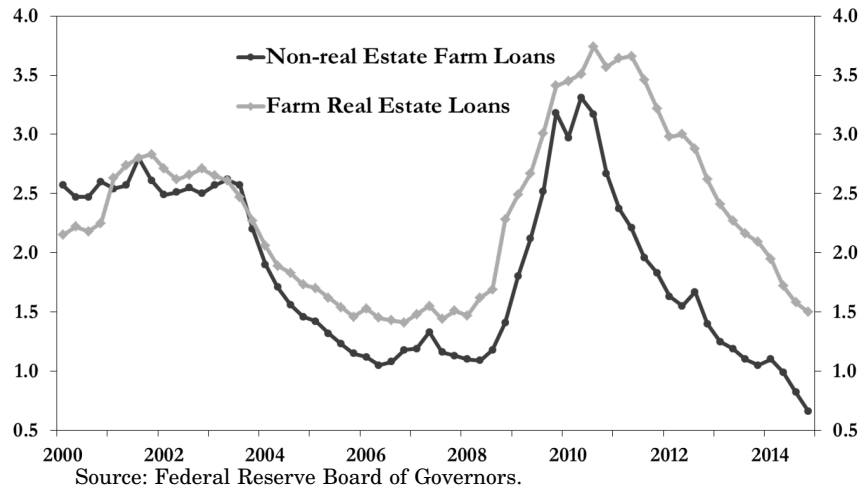
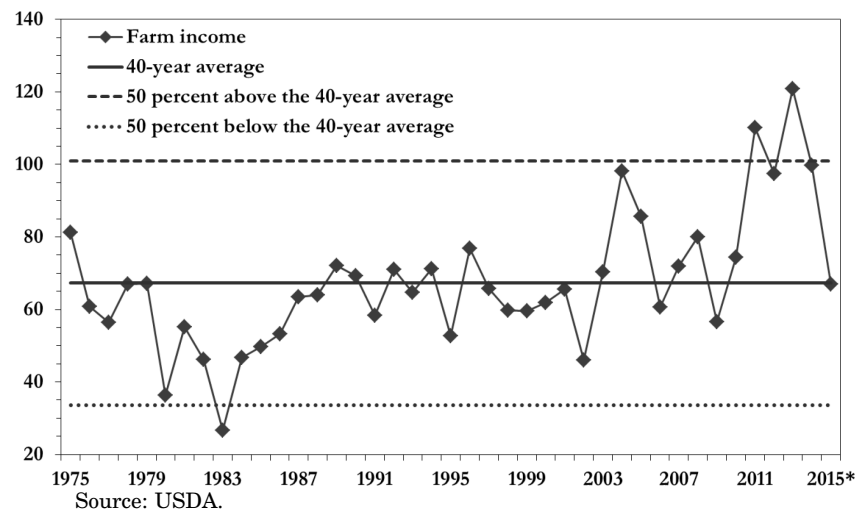
Percent



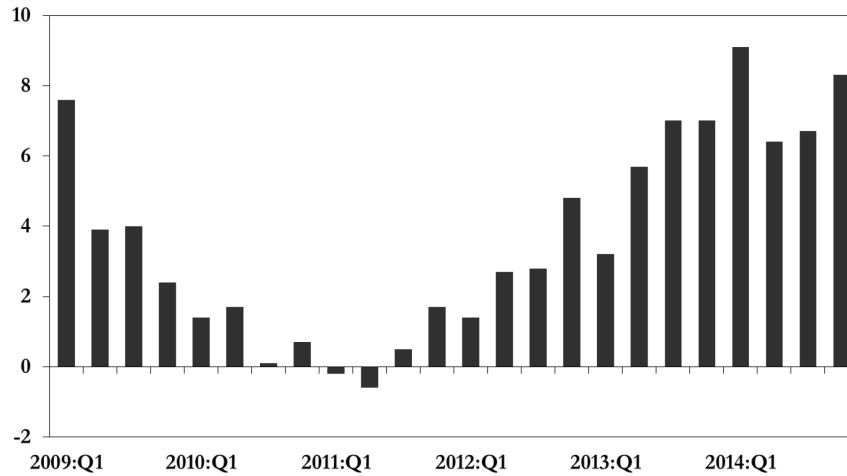
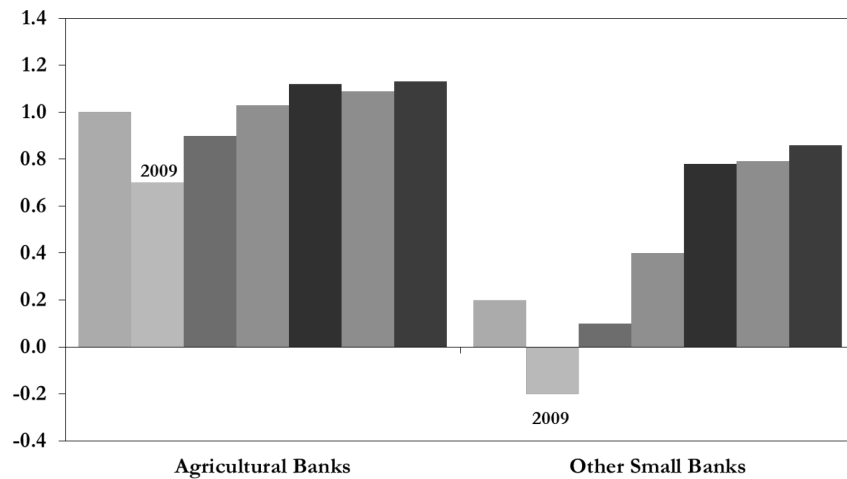
Source: *Agricultural Finance Databook*, Table A.6.

*Section B—Fourth Quarter Call Report Data*

Despite declines in farm income over the last several quarters, delinquency rates on both farm real estate and non-real estate loans declined in late 2014 (*Chart 9*). Although incomes have dropped substantially from recent highs, they were not yet expected to fall below the average of the past 40 years (*Chart 10*). In addition, extremely low incomes (*i.e.*, 50 percent below the long-run average) have not been observed since 1983 and, in the 4 years prior to 2015, incomes were extraordinarily high. Multiple years of historically high incomes helped strengthen balance sheets and better prepare producers for the effects of declining prices seen more recently. As a result of borrowers' strong financial positions, credit conditions have remained solid, even as debt in the farm sector has increased.

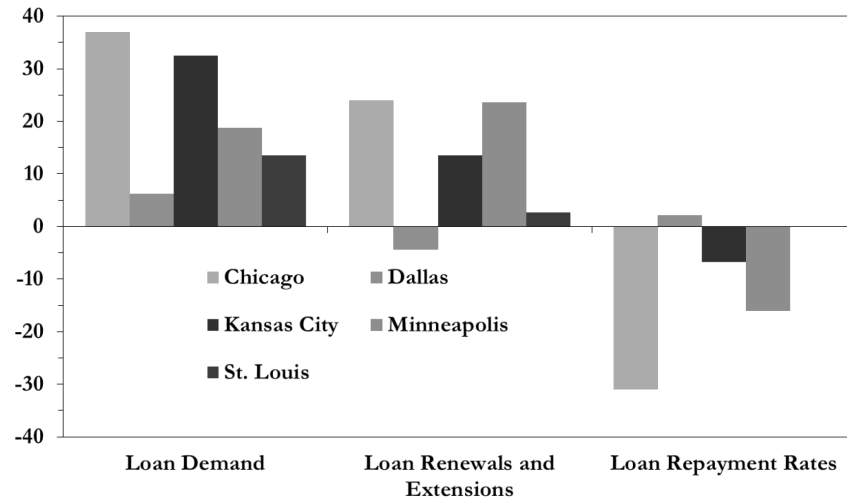
**Chart 9: Delinquency Rates on Farm Loans***Percent of Outstanding Loans, Seasonally Adjusted***Chart 10: Real Net Farm Income***Billion Dollars (2009\$)*

Commercial bank call report data showed that farm sector lending at commercial banks has, in fact, continued to rise and profitability at both agricultural and other small banks has remained relatively strong. In the fourth quarter of 2014, farm debt outstanding at commercial banks grew 8.3 percent from 2013 (*Chart 11*). Loan growth was driven by a 6.8 percent increase in the volume of loans secured by farm real estate and a 9.9 percent increase in the volume of loans to finance agricultural production. At the same time, the percentage of nonperforming farm loans and net charge-offs declined. Improved farm sector loan performance supported a slight rise in profits at agricultural banks. At the end of the fourth quarter, the return on assets at banks with an above-average share of loans made to the agricultural sector rose from 1.09 percent in 2013 to 1.13 percent in 2014 (*Chart 12*).

**Chart 11: Farm Debt Outstanding at Commercial Banks***Percent Change from Previous Year*Source: *Agricultural Finance Databook*, Table B.1.**Chart 12: Rate of Return on Assets, Fourth Quarter 2014***Percent*Source: *Agricultural Finance Databook*, Table B.7.**Section C—Fourth Quarter Regional Agricultural Data**

Although loan delinquency rates remain low, Federal Reserve District agricultural survey data showed slight deteriorations in some credit conditions across some regions. In most districts, demand for operating loans increased, loan repayment rates declined and more requests were made for loan renewals and extensions (*Chart 13*). Declines in farm income also pushed down household and capital spending in all districts. Survey respondents indicated that funds were available for farm loans but noted a slight increase in collateral requirements. Looking ahead, bankers in the Chicago and Dallas Federal Reserve Districts expected lending to increase for cattle and operating expenses next quarter, while loan volume was expected to decrease for crop storage and farm machinery.



**Chart 13: Selected Agricultural Credit Conditions, Fourth Quarter 2014***Diffusion Index \**Source: *Agricultural Finance Databook*, Table C.1.

Depressed farm incomes have begun to put downward pressure on farmland values, particularly in areas devoted to crop production. Farmland values declined in states throughout the Corn Belt due to lower crop prices, while values rose in states relatively more dependent on cattle, oil and natural gas production (*Map*). In the Dallas Federal Reserve District for example, farmland values strengthened for all types of farmland, while dryland and irrigated farmland values declined or increased at a slower rate in the Minneapolis and Kansas City Districts. Ranchland values continued to climb in all districts, as feeder cattle prices supported strong profit margins for cow/calf operations. As demand remained high and supply became more limited for good-quality land, the range of prices between good and marginal land also increased. A majority of survey respondents, however, expected farmland values to remain steady or decline in 2015.

**Map: Value of Non-Irrigated Cropland, Fourth Quarter 2014**

*Percent Change from Previous Year*



\* Mountain States include Wyoming, northern New Mexico and Colorado, which are grouped because of limited survey responses from each state.

Source: Federal Reserve District Agricultural Credit Surveys (Chicago, Dallas, Kansas City, and Minneapolis)

*Conclusion*

As profit margins on farms tightened, producers borrowed more and reduced capital spending in late 2014 and early 2015. However, farm income has yet to fall below long-term historical averages, and recent data have shown only minimal declines in credit conditions. Relatively strong credit conditions have been partially supported by extraordinary profits among crop producers the last several years and, more recently, record profits for cow/calf producers. If the declining trend in farm income persists, however, agricultural credit conditions could weaken more noticeably in the future.

The CHAIRMAN. I thank the gentleman for his testimony and recognize Mr. Paul Combs, for 5 minutes.

**STATEMENT OF PAUL T. COMBS, RICE, SOYBEAN, COTTON, CORN, AND WHEAT PRODUCER AND FARM EQUIPMENT DEALER, KENNETT, MO**

Mr. COMBS. Chairman Crawford, Ranking Member Walz, and Members of the Subcommittee, thank you for holding this hearing on the financial health of farm country and for inviting me to testify.

As a producer, agri-businessman, and bank director, I have a unique ability to observe the farm economy from multiple angles.

I farm corn, rice, soybeans, and wheat in the Boot heel of Missouri and own farm implement dealerships in southeast Missouri and northeast Arkansas. I am a former Member of the Board of Directors of the Federal Reserve Bank of St. Louis, and I currently serve on the board of First National Bank in Kennett. In all of these capacities, I have seen the farm sector go from one of the bright spots in the economy less than 2 years ago to now limping along. In less than 2 years, the average price received for corn has fallen 44 percent, and all other major commodities have experienced a similar nosedive. The pain isn't only felt on the farm, but on the hundreds of other businesses like our family's equipment dealerships that rely on producers.

My family owns and operates 11 dealerships and employs 185 people throughout southeast Missouri and northeast Arkansas. Our sales are down about 15 percent year over year, 2015 over 2014. And I anticipate the sales to continue to stagnate or even get worse in the third and fourth quarters of 2015. Fortunately, in our area, many producers had forward contracted or hedged their 2014 crop at higher prices. However, there isn't an opportunity in the market to do the same in 2015, and in the face of low prices, one of the first areas the producers cut costs is in their equipment investments.

Adding to the challenge is the uncertainty regarding tax policy. Section 179 and bonus depreciation are key tools producers utilize when making equipment purchases, and these provisions expired on January 1, 2014 and were not retroactively extended until December 19. Many of our customers held off on buying equipment until they knew for certain what provisions would be in place. And when they were finally extended, there wasn't enough time left in the year for a farmer to take delivery of the equipment. We are in the same situation again this year with the higher limit in section 179 and the bonus depreciation, and I hope that Congress can make permanent or at least extend these provisions early enough in the year so that farmers and businesses can be able to utilize them.

During my tenure on the Board of the Federal Reserve Bank of St. Louis, I saw the effect that a vibrant agricultural sector can have on the economy of rural America. Despite the stagnation in the urban economies, many rural communities were insulated from the worst of the downturn thanks to a healthy farm economy. High commodity prices allowed producers to make those investments in land and equipment. And those dollars continued to turn over multiple times in our rural communities. However, today there has been an almost complete turnaround with Economic Research Service at USDA predicting net farm income to fall 32 percent this year and be down 43 from the high in 2013. I have witnessed this firsthand as a board member of my local bank, which has a large farm loan portfolio. We have already seen many producers have to refinance the losses they incurred last year for periods of up to 10 years. Some of our farmers weren't able to qualify for traditional operating loans and were forced to go to FSA guaranteed loans or FSA subordinated loans, which can be the loans of last resort. And of the producers who were able to get crop loans for this year,

many are barely able to cash flow and need near record yields to make the loans work.

Perhaps the only positive influence on this outlook in added uncertainty is the support provided by the farm bill, which I hope will help us weather the storm. Three years ago, I testified before the House Agriculture Committee, and we were in discussion of the needs for the 2012 Farm Bill. So I know how long and difficult a process it was to get the bill completed, and I want to thank all of you for the bill that we have in helping ensure farmers have at least some measure of stability in a very unstable market.

The modest support provided by the farm bill is vital, not just to producers that are the direct beneficiaries, but to all of the businesses that depend on agriculture. Effective farm policy gives producers, agribusinesses and lenders the confidence we need to continue investing in our farms and obtaining credit to finance these investments.

Overall, there appears to be some challenging times on the horizon for rural America and the farm economy. U.S. farm policy is absolutely critical to helping us weather the downturn and run our businesses. I want to thank each of you for your work in helping to develop, preserve, and protect these policies. Thank you again for your leadership and the opportunity to offer my testimony this morning, and I look forward to answering any questions that you may have.

[The prepared statement of Mr. Combs follows:]

PREPARED STATEMENT OF PAUL T. COMBS, RICE, SOYBEAN, COTTON, CORN, AND  
WHEAT PRODUCER AND FARM EQUIPMENT DEALER, KENNETT, MO

### **Introduction**

Chairman Crawford, Ranking Member Walz, and Members of the Subcommittee, thank you for holding this hearing regarding an update on the financial health of farm country. I appreciate the opportunity to offer testimony on farm country from the perspective of a producer who comes from an area that produces many different crops and where we have a number of cropping options.

My name is Paul T. Combs. I grow rice, soybeans, corn, and wheat in Dunklin and Pemiscot counties in the Missouri Boot heel. In addition to our farming operation, my family and I also own and operate farm equipment dealerships in both Missouri and Arkansas.

I recently completed two terms on the board of the Federal Reserve Bank of St. Louis and I also serve on several boards and committees for farm organizations, including the USA Rice Federation.

### **Overview of the Agriculture Economy**

As a producer, implement dealer, former Federal Reserve of St. Louis board member, and current board member of my local bank, I have an opportunity to observe the agricultural economy from multiple angles.

As a farmer I have seen the farm price received for corn fall from \$6.79 per bushel in July of 2013 when the farm bill first passed the House of Representatives, to \$3.81 per bushel today, a 44 percent drop. It is a similar story for other crops as well. Adding to the squeeze on producers' balance sheets are the costs of inputs, which haven't declined. Farmers are still paying high prices for seed, fertilizer, fuel and electricity costs for irrigation, and wages for their employees. All told, this year is shaping up to be difficult across farm country. The only silver lining so far is that we have had some good moisture and there is potential to make up for the falling prices with good production. But as we know well in Missouri after experiencing a devastating flood in 2011 and drought conditions in 2012, nothing is certain until the grain is in the bin.

As an implement dealer I operate 11 dealerships and employ 185 people in rural Missouri and Arkansas. So when the farm economy struggles I get hit not only as a producer, but on the business side as well. One of the first areas in which farmers

try to control costs in the face of tighter margins is in their equipment investments. The past several years had been good for equipment sales. When prices were high and farmers had good income many reinvested their profits in buying new tractors and equipment, but over the past year sales have slowed significantly. My sales are down 15% year over year and that's even with producers having the benefit of hedging their 2014 crop. However, that hedging opportunity did not present itself in 2015 and we are very concerned about the prospects of the 3rd and 4th quarters of this year. In other areas of the country where they did not experience a few good years to build up reserves the situation for agribusinesses is more serious with sales almost completely stagnant.

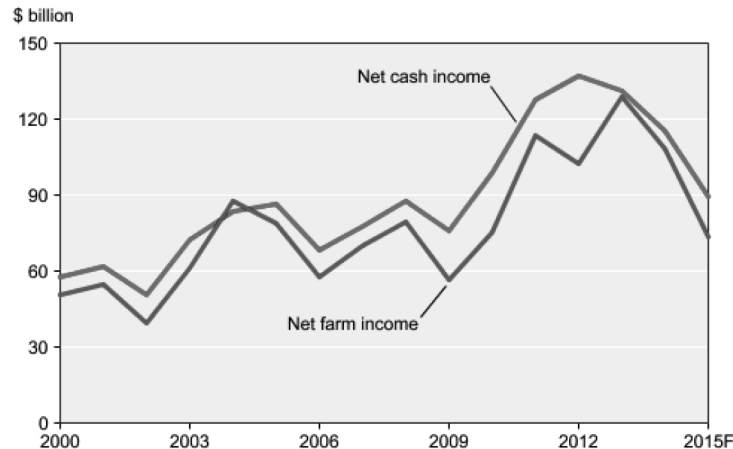
Farm equipment manufacturers are feeling the effects of the lower commodity prices and slow sales. Last August, Deere & Co. announced it would lay off a total of over 1,000 workers in their harvesting and agricultural equipment factories, and earlier this year Caterpillar announced it would be closing two plants in North Carolina and Georgia, leaving 275 people out of work. CNH Industrial, which manufactures Case IH and New Holland equipment, has also announced a number of lay-offs at local plants across the country. The same is true for other equipment manufacturers as well where in the face of falling revenue they are forced to idle plants and reduce output.

Implement dealers aren't the only ones affected by the downturn in farm country. Other agribusinesses that rely on farmers are also impacted, from the dealerships that sell trucks to the seed and chemical companies; no one is left unharmed when farm income takes a nosedive.

During my tenure on the Federal Reserve Board of St. Louis I was able to observe the health of the agriculture sector from a macro level and witness the effect that agriculture has on the state of the rural economy. In 2012 a Kansas City Fed white paper spoke directly to this, stating "The global boom in commodity markets underpinned rural economic gains in 2011. Supported by strong global demand, booming commodity markets spurred robust growth in many mining and farming communities." While the rest of the country was experiencing severe economic turmoil, rural areas, though still impacted, were somewhat insulated and bolstered by a strong farm sector. However, today the situation is quite the opposite. Despite the urban economy starting to show signs of life, falling commodity prices are a drag on rural America. In the *Summary of Commentary on Current Economic Conditions*, commonly referred to as the "beige book", the Federal Reserve publishes observations about the health of the economies of various industries in the different regions of the country. In the report released February 2015 edition the Kansas City district states relative to agriculture that, "District farm income weakened further since the last survey period . . . Looking forward, District contacts expected modest declines in cropland values and further deterioration in farm loan repayment rates amid tighter profit margins for crop producers".

Also highlighting the downturn in farm country is the Economic Research Service of USDA whose 2015 Farm Sector Income Forecast predicts net farm income to fall to \$73.6 billion this year, down 32% from last year and 43% from the high of 2013. Fluctuating prices are part of the nature of farming and for the most part producers are adept at adjusting in the face of hard times, but the plummet that we are seeing today is far more severe than anything even the best managers could have predicted or planned for.

### Net Farm Income and Net Cash Income, 2000–2015F



Note: F = Forecast. Data for 2014 and 2015 are forecasts.

Source: USDA, Economic Research Service, Farm Income Wealth and Statistics.

Data as of February 10, 2015.

As a board member of First National Bank of Kennett I have seen first hand the stress this has put on the lending community. Some of our producers were forced to move from a conventional operating loan to FSA guaranteed or subordinated loans, a loan of last resort. Plus, of the farmers that were approved this year many were barely able to cash flow, just 1 year of poor yields and many of them will be forced out of business, or will have to refinance their loss, which can take in some cases excess of 10 years to pay back.

#### Effects of Strong Farm Policy

The current situation that I have outlined above has generated a need for farmers to take steps to minimize their exposure to risk, resulting in a pullback in investments for their farm. This pullback starts first with their suppliers of inputs (equipment, grain storage facilities, fertilizer) and then begins to impact the majority of businesses in rural America. We've seen this cycle play out over and over and I hope we will not repeat the mistakes of the past by taking for granted how important a dependable safety net is, not just to producers, but all businesses and families that depend on agriculture.

Effective farm policy gives producers, agribusinesses, and lenders alike the confidence we need to continue investing in our farms, and obtaining credit to finance these investments.

#### Successes of the 2014 Farm Bill

I want to therefore commend the work that the Members of this Subcommittee, the Agriculture Committees and both chambers of Congress did to write and pass the Agricultural Act of 2014. I know full well how long of a road it was to get the farm bill to the President's desk, but the conditions of today just underscore how vital it was to get it passed when you did.

Throughout the farm bill debate, beginning with hearings in 2010, the farm economy was booming in many areas of the country. Net farm income was at record highs, land values were steadily increasing, and many producers were paying down debt and investing further in their operations. This led many to be lulled into a false sense of security, with some economists claiming that we had reached a "new normal" for agriculture due to high commodity prices. Many farm bill ideas were based on this assumption and were not written to withstand the hard times that many of us knew were on the way. Fortunately Congress listened to the needs of all producers and crafted a farm bill that provides the ability to tailor risk management to each operation in order to weather this downturn in the markets and survive to farm another year.

A cornerstone of the safety net for many producers is Federal Crop Insurance, without which most farmers would never be able to secure financing for their operations or survive 1 year of disaster. The availability and affordability of crop insur-

ance ensures that producers are able to participate and purchase a level of insurance that works for their operations. For lenders this is crucial when considering extending credit to farmers as it provides at least some certainty that he can repay his loan even if wiped out by weather or market collapse. The farm bill made several enhancements to crop insurance and provided producers greater ability to tailor their insurance purchase to their farms. This is especially important to many producers, regions, and crops that have been under-served under Federal Crop Insurance.

However, there is one form of risk that insurance is not meant to address, which is falling and sustained low prices. This is the exact scenario I warned against 3 years ago the last time I testified before the Agriculture Committee and it is the exact scenario we find ourselves in today. Fortunately the farm bill addresses this risk by providing a commodity title that can help a farmer weather the bad times and survive to farm again in the good times when prices recover.

For my operation I was able to enroll my corn and soybeans in ARC and protect myself against the downturn in prices for at least the first few years and enroll my rice, wheat, and sorghum in PLC where my primary risk is not revenue fluctuations but rather sustained low prices. This flexibility is absolutely essential and producer choice, although complicated, is part of what made the farm bill a success.

These policies are not just important to me as a producer, but are essential to the agribusinesses that rely on the agricultural economy as well. If a market or weather event like the 2012 drought were to repeat itself and there were no farm policy in place not a single tractor would leave the lot next year and my 185 employees would be out of work. Furthermore, without the underpinnings of sound farm policy creditors would not be able to extend financing to producers. I do not know many farmers in my area that are sitting on enough cash reserves to self finance what can be upwards of a million dollars in expenses for just 1 year on just the hope that they will make a crop at the end of the season. And if they were able to self finance, it would only take 1 year of drought, floods, or an untimely hail storm to put a farmer out of business.

All of this is to say, the farm economy is struggling, but the one bright spot for me as a producer and businessman is that we have a 5 year farm bill in place that was written to help us weather this storm.

### **Other Challenges**

In addition to falling commodity prices, the rural economy faces challenges due to burdensome regulations, unpredictable tax policy, and transportation issues, just to name a few. Farmers need certainty and the threat of potentially not being able to plow through the field without violating the law, not knowing what the Tax Code will be 12 days before the end of the year, and not having a reliable means to deliver a crop to market all provide added worries and impediments to a profitable agricultural economy. These factors also impede our global competitiveness.

### **Regulations**

One needs to look no further than the Clean Water Rule (formerly known as *Waters of the United States*, or WOTUS), which was issued last week, to find an example of regulatory overreach that threatens to saddle us with huge new costs and even stiff civil and criminal penalties. The process the Environmental Protection Agency used to arrive at the final Clean Water Rule was convoluted and not at all transparent. I am very concerned about the impact the rule will have on my farming operation and implement dealerships.

### **Tax Policy**

One other aspect of Federal policy that seriously hinders my business is the uncertain nature of the Tax Code, specifically the expiration of Section 179 and bonus depreciation. After expiring at the end of 2013, Congress did eventually retroactively extend these provisions for the 2014 tax year, but not until December 19th. This is not enough time to get the full economic value of these provisions. The provisions ought to be made permanent but if that is not in the cards then an earlier extension of current law is very important. The current \$25,000 limit that Section 179 reverted to on January 1st of this year would not even cover the cost of most plows I sell, much less the tractors needed to pull them.

### **Transportation Issues**

Farmers rely heavily on transportation infrastructure to get their crops to market, we in Missouri are fortunate to have access to several waterways where transporting via barges is a cost effective and efficient way to move our commodities. However, aging locks and dams and the lack of investment in river infrastructure has caused problems for many producers, especially those upriver from me. Some

of these issues were addressed in the Water Resources Development Act which passed last session of Congress, however there is more work needed to be done to ensure that transportation costs or delays do not get in the way of farmers delivering their crops to domestic and overseas markets.

#### **Conclusion**

Over all, we have some very rocky waters to navigate ahead of us. U.S. farm policy is absolutely critical to helping us avoid the shoals. I thank each of you for your work in helping to develop, preserve, and protect these policies.

Again, thank you for your leadership and for the opportunity to offer my testimony this morning. I look forward to working with you and your staff and will be happy to respond to any questions you might have.

The CHAIRMAN. Thank you, Mr. Combs.

Mr. Verett, you are recognized for 5 minutes.

#### **STATEMENT OF STEVE VERETT, COTTON, SORGHUM, AND WHEAT PRODUCER, LUBBOCK, TX**

Mr. VERETT. Thank you, Mr. Chairman, Ranking Member Walz, and Members of the Subcommittee for inviting me to testify. My name is Steve Verett. My son, brother, and I farm near Ralls, Texas, where we grow cotton, sorghum, and wheat. I am also the Executive Vice President of Plains Cotton Growers, and Treasurer of the Southwest Council of Agribusiness.

This hearing is important because there has been a huge change in the farm economy between the time that you started the farm bill process and today. Cotton prices now are 70 percent lower than the high recorded in 2011 and down 30 percent compared to the highs in the succeeding 3 years. I speak in terms of cotton, but this plummet in prices is commodity-wide. As a consequence, farmers across the country are facing very difficult times, even those who had experienced a stronger price rally and good production in recent years. For cotton growers, the price rally was not as strong or sustained. And in Texas, where we have been dealing with a string of the severest level of drought, these times are extremely challenging because we have had little opportunity to build up financial reserves in order to get through this bear market.

In order to benefit from stronger prices, you have to have a crop to sell. The stress is especially great for young farmers who have debt and little equity in their operations. And although we have faced 4 years of drought and the crop losses that come with it and the collapse in crop prices, our input costs are sticky and, in most cases, rising.

The good Lord has answered our prayers this year, sending us desperately needed rainfall. But as you undoubtedly read, our cup is overflowing, and many producers will not be able to get into the field to plant a crop in a timely fashion.

Securing financing for 2015 was extremely challenging for many farmers, in part because so many were carrying debt from the year before. For many Texas producers, there will be no room for error this year if they expect to secure financing for 2016. In light of this, I would say that the health of the farm economy is very precarious. This is especially true in my part of the country, but based on what I have heard from my fellow producers around the country, everybody is really praying for a price recovery, strong yields, and in many cases, both. Without a turnaround, those who have had a recent history of stronger prices and production will take on more fi-



nancial water while others less fortunate will be navigating serious financial straits. These conditions are not just affecting farm families, but people in cities like Amarillo and Lubbock and in smaller towns throughout Texas, even when their work has nothing to do with agriculture.

Cotton is the number one cash crop in Texas, and Lubbock County is the largest cotton-producing county in America. Cotton is an economic lifeblood in Texas. That is why the farm bill and crop insurance are not just for farmers and ranchers. This is why it mystifies me when some people can't or won't appreciate why we need both when the answer is staring them in the face. Without Federal involvement and crop insurance, there would be no multi-peril insurance on our crops. And without a farm bill, there will be no American response to record high and rising foreign subsidies and tariffs.

There are five studies published in the last 6 months that describe in great detail how our trading partners are breaking their trade commitments. Their cheating is harming America's farmers and ranchers, hurting our economy, and costing us jobs. But I don't have to read a study to know that because as a farmer, I am living it every day. When Communist China is paying its farmers \$1.45 per pound for inferior cotton while I am earning something on the line of 60¢ for very high-quality cotton, something is not right. Communist China has a state-run economy, and for about the past decade, China had a policy of acquiring record stocks which sent world prices soaring, but overnight, Chinese policy changed and sent world prices into the tank. Now USDA says that China is likely to unload these stocks, depressing world prices with no end in sight. With China and other countries with low-wage jobs claiming much of our textile industries years ago, 80 to 85 percent of American cotton is exported. We are heavily dependent upon trade, but when it comes to the world cotton market, Communist China pulls nearly all the strings.

What we have is a double-edged sword. First, even as you worked hard to cut \$23 billion from the farm bill and still provide a safety net, all the other big players around the world were doubling down on their subsidies and protections, breaking their commitments. Our trade agreements give us a rules-based system, but we don't ever seem to enforce our rights.

Second, our competitors go to Geneva and convince trade lawyers to arbitrarily change the rules that we agreed to in order to unfairly attack U.S. farm policy. That is how the Brazil case happened. Still I must support trade because as a major exporter, we have no choice. I would just like to see some effort at enforcement.

Absent a free and open market or enforcement by our government to make it free and open, the farm bill offers American producers at least some tools to manage the risk of a market distorted by foreign subsidies and tariffs. The problem for cotton farmers is we had to give up those tools for cotton lint in the 2014 Farm Bill in order to satisfy Brazil. There is no ARC or PLC on cotton lint. This is a huge problem for cotton farmers based on the economic havoc that I have just described because the cotton STAX insurance policy is designed to operate in a free market and not as a response to cheating by other countries. I pray that we can weather

the current storm, but if conditions continue, we may need USDA to use the tools it has available under the farm bill to help mitigate this serious situation.

I have given you a lot to think about, mainly bad news for cotton, and I apologize for that, but I understood this was the purpose of today's hearing. Still I would be very remiss if I did not tell you how much I appreciate the Members of this Subcommittee and of the entire Committee for defending American farmers and ranchers every day. We as producers do not say it enough, but we are truly grateful. Thank you very much.

With that, I would be glad to answer questions that you may have.

[The prepared statement of Mr. Verett follows:]

PREPARED STATEMENT OF STEVE VERETT, COTTON, SORGHUM, AND WHEAT  
PRODUCER, LUBBOCK, TX

Mr. Chairman, Ranking Member Walz, and Members of the Subcommittee. Thank you for holding this important hearing on the financial health of farm country.

My name is Steve Verett. My son, brother, and I own and operate a 3,500 acre family farm in Crosby County, Texas, located east of Lubbock. We are primarily cotton producers but we also grow wheat and sorghum. In addition to farming I also serve as the Executive Vice President of Plains Cotton Growers, Inc., and as Treasurer of the Southwest Council of Agribusiness. But, today, the only hat I wear is that of an American farmer.

I expect that at least part of the reason you were motivated to hold this hearing is to help highlight the fact that, economically, times have changed significantly since consideration and passage of the 2014 Farm Bill. This is true for all commodities including cotton.

Consider this: in the year when the super committee was formed to achieve deficit reduction in order to avoid budget sequestration and the farm bill was potentially a part of that process, the average cotton price for 1 month reached almost \$2.30 per pound, an unheard of level in a market where \$1 cotton is unusual. In 2012, 2013, and in the early part of 2014, when the farm bill was finally enacted into law, the monthly average cotton price still reached as high as 94¢ to over a dollar per pound. Now, to clarify, this does not mean that cotton farmers all partook in these high prices, especially the high water mark where most did not. For example, producers who forward price their crops to manage risk often miss out on the peaks while those dealing with successive years of drought missed out altogether. But my primary point here is to suggest to you that the farm bill was written in the midst of a bullish cotton market and today all of those bulls are bears.

Beginning last fall, cotton prices collapsed into the 60¢ range where prices largely remain today. Compared to the peak price back in 2011 this constitutes a 70 percent drop in prices. But even compared to crop year averages recorded during the farm bill's consideration, cotton prices this year are still down very significantly, by as much as 30 percent.

I can only say anecdotally, based on conversations I have had with producers and lenders in other parts of the country, that despite the stronger rally in crop prices that they had in the recent past, as compared to cotton, and despite having stronger yields, many producers in these parts of the country would be under water today given the plunge in prices but for their having purchased Federal Crop Insurance and the potential for some farm bill benefit being paid this October. These are the same producers who have had the opportunity to build up some financial reserves over the years, thanks to higher crop prices and good yields, and, yet, they are hoping and praying for some recovery in the market or a super strong yield to offset crop prices that today would not cover their bills.

Having said that, now imagine a farmer in Texas who has been dealing with a severe drought—in many places a D4 drought—for the past 4 years, who has been growing crops that have seen a more modest, shorter-lived price rally in recent years but has still felt the same price plunge, and in the case of the cotton farmer, where he also has no farm bill benefit coming because crop insurance is it for cotton farmers. Producers in my part of the country have had little opportunity to build up reserves over the past 4 years in order to weather the current storm because

they spent all of those years trying to keep their head above economic water because there was no rainwater.

Consider further what beginning farmers and ranchers are experiencing. In many cases, they have no reserves built up and little equity in their operation.

And, now, as you know due to the terrible tragedies in south Texas, the drought is giving way to deluges of rain that in many cases are preventing producers from planting a crop, causing them to potentially lose out on what could be a strong production year, the first in a very long time. To offer a personal illustration, on my own farm, I may be prevented from planting some acreage for the first time in 38 years.

Yet, even as farmers across the country feel the effects of depressed crop prices, the prices we receive for our crops have not translated into lower input costs. Some input costs have gone down but most are stuck or are even still rising. It confirms once again the quip made by President Kennedy who very astutely observed that farmers are the only people in the economy who buy everything they buy at retail, sell everything they sell at wholesale, and pay the freight both ways.

So, Mr. Chairman, if I were asked to describe the state of the financial health of the farm economy in one word, my answer would be: precarious.

Lenders in my part of the country tell me that as much as 65 percent of operating loans from last year had significant carry-over into 2015 because producers simply could not pay off their notes. Equipment dealers tell me that about half of producers in our area had to have their equipment notes restructured. Bankers pulled a rabbit out of the hat in getting a great majority of producers in our part of the country refinanced for 2015 in a time when it is very difficult to show a positive cash flow. But, with crop prices where they are right now, a producer, especially a producer still carrying last year's debt, will not be able to as much as stub a toe on the production or cost side of the equation if he plans to get refinanced for 2016. That producer is going to need a very good year this year. And, good Lord willing, he might get it—provided he can get into the field.

Yet, the financial health of the farm economy does not just concern the farmer. The 1980s farm financial crisis and other severe times for agriculture have demonstrated that the impact of a bad farm economy is felt even in the cities. And, conversely, the manufacturing crisis of the early 2000s demonstrated that the impact of a good farm economy is also felt in the city. I expect that at least two of my fellow panelists can speak more fully on this but I will just offer some thoughts on this from my vantage point.

Cotton is the No. 1 cash crop in the State of Texas. Lubbock County is the No. 1 cotton-producing county in America. So, when cotton prices are in the tank and drought is gripping our state, cities like Lubbock and Amarillo—where nearly ½ million people live and work—suffer. And it suffices to say that when Lubbock or Amarillo cough smaller towns like Brownfield and Plainview are on a sick bed. Cotton is the lifeblood of these cities and towns and many just like them across the Cotton Belt. Crops grown by fellow producers across the country can tell a similar story.

People not directly involved in agriculture but who live and work in these communities may not know it, they may not even think about it, but their livelihood depends on good crop prices and strong yields. And, in the absence of good yields and strong crop prices, these folks depend as much as the farmer on Federal Crop Insurance and the farm bill.

I can go back to the manufacturing crisis of the early 2000s when a strong agricultural economy was being credited for helping to stabilize the national economy. Times were just starting to improve for agriculture about that time after we ourselves had experienced 4 very hard years on the farm when cotton prices fell to 28¢ a pound and corn prices were under a buck. I can attest that had Federal Crop Insurance and the farm bill not been there and had they not been strengthened to respond to this serious situation, we would have seen another 1980s farm financial crisis, we would not have been around to help offset the losses to the manufacturing sector, and the economic boats of more than just farmers and ranchers would have capsized.

Now, in a city noted for political polarization where little can be agreed upon, I realize that some on either side of the political spectrum can still manage to come together in their common loathing of crop insurance and the farm bill. They use and abuse facts and statistics to paint the picture they want to and that is certainly their right. But my defense of crop insurance and the farm bill boils down to two facts. First, I could not buy insurance to cover my crop from multiple perils like I can on most anything else without Federal involvement. The weather risks of farming are simply too great for any private company to successfully offer insurance to producers at premiums that producers could afford. In the best of years, for some

crops, on the best of ground, for the best of producers, this might be possible, but not year in and year out for all producers in all parts of the country on all crops. This is simply a fact.

Every farmer in the country wishes he could buy insurance on his crops the same way he buys insurance on anything else, in part so we did not have to come to Washington hat in hand to plead for protection of our insurance. Making this plea every 5 years causes anxiety enough, especially when the House defeated by only nine votes an amendment that would have, without the least bit of exaggeration, killed Federal Crop Insurance but the anxiety reaches new levels when year in and year out we face killer amendments on the House and Senate floors that are cloaked as mere reforms. It is key to remember that producers write huge checks to cover our end of the premium on crop insurance, totaling about \$4 billion last year, and in any year other than a year when we receive an indemnity, it is the farmer paying the government money not the government paying the farmer.

Second, very often, we are not operating in a free and open market. I will not duplicate here what you are likely to hear at tomorrow's hearing but there are no fewer than five studies out there showing that even as you worked hard to cut the cost of the farm bill by some \$23 billion, our trading partners were all very busy increasing subsidies, tariffs, and building up other walls against the commodities we produce here in America. Texas Tech University, Charleston College, DTB Associates, the OECD and the office of the United States Trade Representative all have extensive reports on what each of our trading partners is up to in this regard and, quite frankly, it is scandalous. USTR's report alone numbers more than 400 pages and I expect that none of these reports cover every creative angle these countries are taking to protect their agriculture sector.

The whole goal behind our trade agreements is to have a rules-based system and I certainly support this effort. But, the practical problem that we need to address is two-fold not only to make that goal a reality but also to maintain agricultural support for trade. First, we are not holding our trading partners' feet to the fire to ensure they live up to their commitments. And, second, we are allowing our trading partners to reinvent what our country agreed to in order to tear down any support for American farmers in the same way that courts here at home sometimes make up the law as they go along rather than simply interpret it. The American cotton farmer knows this all too well based on our experience with Brazil.

We are incredibly dependent on the world market, especially in the case of cotton where a majority of our textile mills have left our shores long ago, along with tens of thousands of good paying jobs. We now depend on the world cotton market to sell about 80 to 85 percent of what we produce. And that world cotton market we depend on revolves around communist China, a state-planned economy, the world's largest consumer, importer, and stockholder of cotton, and the second largest producer. And this brings me to my point about free and open markets.

China has been the world's largest cotton importer since 2003 though it was certainly a big player well before that time. Since then, China has driven world cotton stocks to nearly double average levels, with world stocks approaching nearly 90% of use in 2012 and 2013. During this same period, China was offering its producers a minimum of \$2,950 per ton to \$3,200 per ton at a time when the world median monthly price was \$2,000 per ton and no monthly average exceeded \$2,600 per ton. Import tariffs in China range from 0–40%, with most cotton entering at 13% or 27% with VAT. In 2014, China instituted a program in the Xinjiang province to pay producers there about \$1.45 per pound even as cotton prices in the U.S. were falling into the 60¢ range. There is significant uncertainty as to how communist China—the government, not markets—will deal with the unprecedented level of stocks China is sitting on, but lower imports by China are thought highly likely over several years. As such, USDA predicts that global cotton markets will face a tough and costly transition should China in fact return world stocks to normal levels with anything other than a long transition period. And, USDA offers this comparison: China's disposal of a large cotton stockpile in the early 2000s may provide some guidance about how Chinese authorities might dispose of their current stockpile. By 1999, China had accumulated large cotton stocks (140 percent of use), which they reduced to 48 percent stocks-to-use by 2004. This is chilling because it was in the late 1990s and early 2000s when the U.S. agriculture economy neared collapse and cotton prices reached that apocalyptic 28¢ per pound.

I wish I could say that China is alone on this front but, as the reports on foreign subsidies and tariffs that I referred to earlier indicate, China is only one of many, though certainly a big one. India is working hard to do what China has done in terms of implementing policies to protect and promote its cotton industry through government largesse and barriers to trade. And Turkey is yet one more in a litany of examples, where the Turkish Government has alleged, without any substan-

tiation, that the U.S. cotton industry is somehow illegally dumping exports to Turkey, with one Turkish official even reportedly saying that the charge is simply in retaliation against the United States for something our country has alleged to have done on steel.

In short, farmers can and do manage extraordinary risks. But, there is no way that an individual American farmer can somehow manage the risks associated with, for instance, a state run economy the size of China that for several years will acquire stocks of historic record and then all of a sudden stop and, perhaps, in time liquidate those stocks back down to normal levels. And note that I am not even speaking to some of the more controversial issues associated with leveling the playing field in the global market, such as currency manipulation, wage disparities, or differences in environmental protection requirements; I speak strictly in terms of subsidies, tariffs, and non-tariff trade barriers erected for the purpose of building up their own industry at the expense of American exports.

China serves as a specific though not by any means exclusive reason why we have and why we need U.S. farm policy. Our farm policy is a very modest response to the kind of anti-competitive trading practices that we would not tolerate within our borders and which we should not tolerate outside of our borders either.

One very serious problem for cotton lint, however, is it is no longer eligible for key farm bill support, as other crops are. To comply with the World Trade Organization ruling in the Brazil case, cotton policy was completely overhauled, with cotton lint not included in either the Agriculture Risk Coverage or Price Loss Coverage options. Instead, cotton retains access to the marketing loan with a base loan rate well below the cost of production, as well as traditional crop insurance, and a new area-based crop insurance policy known as STAX. The trouble is, the success of this policy as an effective safety net is largely predicated on a free and open market on cotton which, as I have just explained, we most certainly do not have today. As a result, first year participation in the new STAX insurance policy is low. And, of course, traditional crop insurance was never designed to meet the anti-competitive trade practices of our trading partners but to respond to crop losses due to weather and revenue swings within a single crop year in order to provide replacement cost protection.

This is certainly not good news for the American cotton farmer. But, absent any action by the U.S. Government to compel our trading partners to play by the rules that they agreed to, I do believe that there are at least some tools within the farm bill that are available to USDA that might assist cotton producers in dealing with this extraordinary situation that is totally out of U.S. producer control and that may very well require mitigation depending on price and production conditions.

Despite this ominous testimony, which I believe does reflect the feeling of most producers, and certainly cotton producers, I remain hopeful, in first part because that is what farmers do but in second part because I am testifying before Members of Congress who understand what I have just laid out. Many of you were in the trenches, leading the fight for a new 5 year farm bill during what was a very contentious and protracted, 4 year debate. I am very heartened and encouraged by your support. I know that many of you took a lot of bullets from opponents of U.S. farm policy on account of your support while maybe you did not always get the thanks you deserved back home for making it happen. For all that you have done and continue to do for American agriculture, please accept my gratitude and sincerest thanks, and know that American agriculture is a bit like family and friends in that we do not always express our appreciation as we should.

Before I conclude, let me touch on a few other issues of great importance to agriculture that I would be remiss not to mention. My brief discussion of these issues is in no way meant to diminish their importance to agriculture but rather a function of time as I felt that a primary focus on the current conditions facing cotton farmers was especially appropriate in the context of today's hearing.

First, on a note very much related to the importance of the farm bill and crop insurance, let me just convey my thanks to each of you for working to protect both in the budget process. We know that it did not just happen and that it involved a lot of blood, sweat, toil, and tears on your part. We very much hope that you will stand your ground against any attacks during the appropriations process.

Second, we are grateful for all that you are doing on a bipartisan basis to block the *Waters of the U.S.* regulation. I believe that Chairman Conaway and Ranking Member Peterson reflect the collective wisdom of all of agriculture when they rejected EPA's attempt to repackage and sell what is basically the same rule. We also very much appreciate efforts to eliminate the permitting requirements under the Clean Water Act that are duplicative of requirements already imposed by FIFRA. Crop prices and yields matter but so do costs and Federal dollars can also be better

spent on things other than on doubling down on permitting requirements and policing ditches.

Third, producers like me very much appreciate the bipartisan efforts to eliminate the death tax and make permanent the section 179 and bonus depreciation levels extended late last year. We also appreciate that the proposal to eliminate stepped up basis for producers was rejected. As a dad who wants to pass along the farm to his son, the death tax and stepped up basis issues are not provisions for the wealthy but provisions meant to make for certain my son is not shouldered with an unsustainable amount of debt, especially in these very uncertain times when debt load can make or break a producer. In regard to section 179 and bonus depreciation, we do very much appreciate that these provisions were ultimately extended and I know that you recognize how much more these provisions could mean for producers and the whole economy if made permanent or at least extended earlier in the year if an extension is all we can hope for. The conditions in cotton country that I have just outlined have really hit the implement dealers and addressing this issue in a timely way would certainly be of help to them.

Finally, on behalf of every producer who has been coping with extreme drought or flooding or other weather events where a toll has been taken on our Actual Production History for crop insurance, I want to thank this Committee for developing the APH adjustment included in the farm bill and for pressing for its timely implementation. This provision has been a lifesaver for so many producers because it gave them an opportunity to pay a higher premium to buy adequate insurance to cover what they have proven they can grow. This was a key provision of the farm bill and we thank you for being the genesis of it, and we also commend Secretary Vilsack and Risk Management Agency Administrator Willis and his team for pulling out the stops to make it happen.

Thank you once again, Mr. Chairman, and Ranking Member Walz for affording me this opportunity to testify. I look forward to hearing your thoughts and answering any questions that you may have.

The CHAIRMAN. Thank you, Mr. Verett.

Mr. Brantley, you are recognized for 5 minutes.

**STATEMENT OF L. DOW BRANTLEY III, RICE, COTTON, CORN,  
AND SOYBEAN PRODUCER, ENGLAND, AR**

Mr. BRANTLEY. Chairman Crawford, Ranking Member Walz, and Members of the Subcommittee, I am honored to have the opportunity to offer my views today on the current state of the agriculture economy. Again, my name is Dow Brantley, and I farm 9,500 acres of row crops in central Arkansas in the community of England. We grow rice, cotton, corn, and soybeans. I farm in partnership with my parents, two brothers, and our families. And I am pleased to serve as Chairman of the USA Rice Federation, the Arkansas Rice Federation, and Arkansas Rice Farmers. But today I am going to try to offer my testimony as an individual diversified farmer from the Mississippi River Delta.

Rice is our primary focus, and as you know, Mr. Chairman, Arkansas grows approximately 1.3 to 1.5 million acres of rice each year, which is about  $\frac{1}{2}$  of the U.S. rice crop. Rice production, transportation, and processing play important roles in our state by providing thousands of jobs in the Mississippi River Delta. Nationally, the U.S. rice industry contributes \$34 billion in annual economic activities. It provides jobs and income for everyone involved in the value chain, contributing approximately 128,000 jobs.

This year's rice crop is expected to bring about \$3 a hundred-weight less than the 2013 crop on top of rising input costs, which are all well beyond the control of the farmer. The stakes are higher and higher, and the profit margins are continuing to shrink and, in many cases, are in the red today.

For those unfamiliar with the crop, rice fields are flooded during the growing season to provide water that the plants need and to help control weeds. While drought during the growing season adds to the cost of labor and other flood management, we fortunately do not typically lose a crop due to drought. On the other hand, this year's planting period in Arkansas and surrounding areas has been hampered by unusually wet weather. Aside from battling Mother Nature, government interference is the biggest challenge that rice producers face as they deal with the plethora of factors affecting price beyond their control.

As rice is the most government-interfered crop in the world, the U.S. has difficulty competing with foreign governments who illegally subsidize their crops and participate in unfair trade negotiations. It is critical that the U.S. Government continue to go after the bad actors that put our nation's rice producers at an unfair disadvantage.

A study released last month on the global competitiveness of the U.S. rice industry by the USITC lays out these challenges in great detail. The key conclusions outline the pervasive extent of government involvement in global rice markets and the high level of foreign tariffs that keep out U.S. rice exports. USITC analysts conclude that U.S. rice production would be approximately 25 percent higher in the absence of global tariffs. In this sense, a big risk to the U.S. rice industry is not crop failure, as it may be for some other commodities, but rather the trade policies of our own and foreign governments.

I believe the first order of business should be to right this wrong. I encourage Committee Members to read and consider two sets of comments referenced in my written testimony regarding the 2014 Farm Bill's *actively engaged in farming* proposed regulation. The proposal's requirements do not make good business sense and would come at a significant cost and thus be punitive to my family's operation, which was supposed to be exempt from any change.

In summary, I appreciate the work of this Committee in crafting the 2014 Farm Bill and the work you are doing to monitor the agriculture economy. I think it is critical that we maintain provisions that allow us to be competitive in the world's markets distorted by high foreign subsidies and tariffs that contribute to the kind of depressed prices we have today, including necessary acts of enforcement towards foreign markets that operate illegally and put U.S. rice farmers at an unfair disadvantage.

Without U.S. farm policies in place, the current economy would not prevent farmers from continuing to farm, but it would prevent future generations from becoming involved in farming operations, leaving our industry in peril. I want to leave my operation as a legacy for my children, and so we as an industry need to do all we can to invest in today's economy.

Thank you for the opportunity to present my views today. I will be glad to answer any questions.

[The prepared statement of Mr. Brantley follows:]

PREPARED STATEMENT OF L. DOW BRANTLEY III, RICE, COTTON, CORN, AND SOYBEAN  
PRODUCER, ENGLAND, AR

### Introduction

Chairman Crawford, Ranking Member Walz, and Members of the Subcommittee, thank you for holding this important hearing on the financial health of farm country. I am honored to have the opportunity to offer testimony before the Committee concerning my views on the current state of the agriculture economy.

My name is Dow Brantley. My farm is located in central Arkansas near the community of England. We grow rice, cotton, corn, and soybeans. I farm in partnership with my father, mother, two brothers and our families. Due to the hard work of my grandparents and parents, our family farm has grown from just a few hundred acres in 1946 to around 9,500 acres in row crop production today. I am pleased to serve as the Chairman of the USA Rice Federation, Arkansas Rice Federation and Arkansas Rice Farmers, as well as a board member for many other agribusiness associations in the state, but I offer my testimony today from my perspective as a diversified farmer.

### Industry Overview

As I stated, my farm is diversified, but rice is one of our primary focuses. It is worth noting that Arkansas grows rice on approximately 1.3 to 1.5 million acres each year, which is nearly  $\frac{1}{2}$  of the entire U.S. rice crop. Rice production, transportation and processing play important roles in the state by providing thousands of jobs in what is referred to as the Mississippi River Delta. Rice is the state's second highest value commodity and the top agricultural export. Nationally, the U.S. rice industry contributes \$34 billion in annual economic activity. It provides jobs and income for not only rice producers and processors, but also for all involved in the value chain, contributing 128,000 jobs.

About 85 percent of all the rice that is consumed in the U.S. is produced domestically. Despite significant trade barriers to exports, the U.S. remains the largest non-Asian exporter of rice and one of the largest exporters worldwide.

Rice fields are flooded during the growing season to provide water that the plants need and to help control weeds. While drought during the growing season adds to the cost of maintaining the flood and certainly adds to the labor required to check irrigation pumps and keep levees intact, we fortunately do not typically lose a rice crop due to drought. On the other hand, this year's planting period in Arkansas and surrounding areas has been hampered by unusually wet weather.

In their recent outlook for its representative farms assuming the 2014 Farm Bill provisions and FAPRI January 2015 Baseline price projections, the Agricultural and Food Policy Center (AFPC) at Texas A&M University indicates a significant amount of financial stress for rice farms over the life of the farm bill. Six of thirteen representative rice farms are projected to be in good financial condition (small probability of not cash flowing or losing real equity), none are projected to be in marginal condition and seven are in poor condition (high likelihood of not cash flowing and losing real equity). The AFPC projections should be viewed as optimistic because the analysis used a price forecast that was more than \$1.00/cwt higher than currently projected prices.

This year's rice crop is expected to bring approximately \$3.00/cwt average less than the 2013 crop. Throughout this time period input costs have continued to rise, especially for seed and implements and other key inputs—U.S. farmers cannot control these costs. The stakes are higher and higher, and the profit margins are continuing to shrink and in many cases are in the red today.

In addition to low prices, the industry is trying to defend itself from a food safety standpoint as critics urge the Food and Drug Administration to set a standard for inorganic arsenic levels in rice to a level significantly lower than the international Codex standard. Mounting unnecessary regulations on the industry which do not have scientific backing will only further magnify the U.S. trade disparities and cause additional harm and burden for our farmers, millers and merchants.

### Global Challenges of U.S. Rice Industry

When we're not battling Mother Nature we still have uncontrollable factors that could make or break us any given year, a prime example is government interference in rice production. It is decisions taken by our own Federal Government and the governments of nations around the world. As rice is the most government-interfered crop in the world, the U.S. has difficulty competing with foreign governments who illegally subsidize their crops and participate in unfair trade negotiations. Unfortunately, these bad actors are the same entities that set the world price and without a powerful farm bill, rice producers would be in more trouble economically than they



are currently. It is critical that the U.S. Government continues to go after the bad actors that put our nation's rice producers at an unfair advantage.

A study released last month on the global competitiveness of the U.S. rice industry by the U.S. International Trade Commission (USITC) lays out these challenges in great detail. The key conclusions are well known to our industry and my fellow producers. It outlined the pervasive extent of government involvement in global rice markets and the high levels of foreign tariffs that keep out U.S. rice exports. USITC analysts concluded that U.S. rice production would be 1.3 million metric tons (mmt) higher in the absence of global tariffs. Removing foreign tariffs—U.S. import duties on rice are essentially zero—not only leads to higher production but would also increase U.S. exports by slightly more than 1.3 mmt or approximately 25 percent.

Here are some examples:

1. Thailand's recently discontinued Paddy Pledging Scheme purchased rice from Thai farmers at the equivalent of \$22.22/cwt. The U.S. market price is in the \$13/cwt range. Thailand amassed approximately 12 million to 15 million metric tons of rice stocks as a result and the government is now disposing of these stocks by using export subsidies.
2. India, one of the world's top rice exporters, subsidizes the cost of fertilizer and other inputs for its farmers and the country has emerged as a major world exporter.
3. Iraq's government-controlled tender process since 2014 has nearly shut U.S. rice out of a traditional and large market despite continued price competitive offers from U.S. exporters.
4. South Korean negotiators, at the eleventh hour, demanded that rice be excluded from the so-called Korea Free Trade Agreement because they considered rice a "sensitive crop." U.S. negotiators agreed to the exclusion.
5. China continues to deny access to U.S. rice despite years of technical negotiations with the U.S. Government on a phytosanitary protocol.
6. Japan's continued reluctance to grant meaningful market access to U.S. rice in the Trans Pacific Partnership negotiations raises real questions about the value of the TPP to the U.S. rice industry. We know that the Administration is questioning key WTO members about compliance with their WTO obligations as regards domestic support for agriculture, but these efforts are, unfortunately, insufficient.
7. While the U.S. has extended trade and travel status with Vietnam and China, countries which were our enemies in the 1960s and 1970s, we have not restored normal travel and trade relations with Cuba where the U.S. Government continues an embargo that was put into place more than 50 years ago. For my commodity, rice, where government intervention and trade barriers are rampant, Cuba offers a rare, new opportunity for an export market where I and other U.S. producers can compete on price and quality.

In this sense, a big risk to the U.S. rice industry is not crop failure as it may be for some producers, but rather our own government's trade policies and the trade policies of foreign governments. I believe the first order of business should be to at long last right this wrong. But, as our government hopefully works toward that goal, U.S. farm policy continues to be an important and even vital risk management tool.

#### **2014 Farm Bill Review**

The 2014 Farm Bill made significant changes, many of which should be very helpful, but some of which are making managing our operation a little more challenging. For rice farmers, there is no doubt the elimination of the direct payment has created an enormous challenge. The direct payment was capital that a farmer could count on and that helped us do our work and manage our farm better. We all understand why direct payments were eliminated, and ultimately we were able to support this given the PLC option that was put in the new farm bill, but I don't want to pass over the fact that not having this payment last October, at the same time prices for our products were sliding below costs of production, has made this business a lot more difficult.

With that said, PLC which is what most rice farmers chose, should in fact provide some real support in time of need. I appreciate the certainty that there should be some help on the way this October. This by no means guarantees me a profit, but it does at least give me a fighting chance and the confidence I need to go out and spend the money to try to make a good crop. For other crops in my area, the ARC program looked like a good option for the next couple of years anyway, and will provide some helpful liquidity. Finally, for cotton and for the other crops, I am grateful for the new insurance options of STAX and SCO. None of this was particularly at-

tractive this year due to distorted global markets and their impact on prices, but I do believe that in a free and fair market these policies can be a valuable tool for producers.

I recognize the challenge Congress was faced with to make improvements to crop insurance and commodity policy. Having watched the 2014 Farm Bill process in its 4 year entirety, it seems like nearly a miracle that you were able to put together and pass a bipartisan farm bill and maintain as strong of policies as you did. I do want to thank you for this Committee's tireless efforts on behalf of producers of all crops in all growing regions.

#### **Crop Insurance**

Crop insurance, as a whole, has not worked for rice generally, and on my farm particularly like it has for other crops and areas. Our farm is 100 percent irrigated, and on average, our yields are very consistent. Our financial problems occur with higher production costs due to irrigation or as the result of a weather event in the fall that disrupts our harvest and affects the quality of our crops. We have made attempts to address these shortcomings through the promotion of a downed rice policy, and as I stated earlier we are hopeful about the new SCO policy. I would also note that the 2014 Farm Bill included a provision which would allow producers to purchase insurance to cover their margins. It appears this policy is on track to be made available for the 2016 crop year, and so we are eager to see if in fact it will be as viable as we hope. It is imperative that SCO is made available to all of the rice growing counties to be fully effective and that revenue protection be available every year and not inconsistently offered.

#### **Payment Limitations/Means Testing**

Farms from my home area and rice farms in general tend to be larger and thus more sensitive to payment limit provisions. The 2014 Farm Bill retained workable payment limit provisions, and for this we thank you. This was coupled the authority granted to the Secretary of Agriculture to: (1) change "actively engaged" requirements for eligibility; and (2) impose a hard limit on marketing loan benefits which only serves to hamper the orderly marketing of certain crops.

A number of farm organizations joined in submitting a comment (<http://www.usarice.com/doclib/191/26/7929.pdf>) on the proposed "actively engaged rule," and the six rice producing states also submitted a comment (<http://www.usarice.com/doclib/191/26/7926.pdf>). I would encourage Committee Members to read and consider these carefully. For purposes of this testimony, let me just say that these changes would require our farm to make changes in our day-to-day operations that do not make good business sense. This would come at a significant cost and thus be punitive to my family's operation. Note that we are a family operation, and thus we were supposed to be exempt from any change. This rule needs to be revised significantly.

Regarding the marketing loan, this was largely an issue for cotton with the 2014 crop, but under the combined pay limit it impacts the safety net for all commodities. I don't think anyone anticipated at the time of farm bill passage that the marketing loan would come into play for any crops including cotton, and no one would have wanted the orderly marketing of crops to be disrupted. Unfortunately, this has become the case and I believe this problem should be addressed.

#### **Conclusion**

In summary, I appreciate the work of the Committee on Agriculture in crafting the 2014 Farm Bill and the work you're doing to monitor the agricultural economy. I know implementing this farm bill and developing the next farm bill will present its own set of challenges. I remind you that it is critical that we maintain provisions that allow us to be competitive in world markets distorted by high foreign subsidies and tariffs that contribute to the kind of depressed prices we have today. This includes providing necessary acts of enforcement towards foreign markets that operate illegally and put U.S. rice farmers at an unfair disadvantage.

Without these price protection and other farm policies in place, the current economy will not only discourage farmers from continuing to farm but it will discourage future generations from becoming involved in new or existing farming operations, leaving our industry in peril. I want to leave my operation as a legacy for my children. We as an industry need to do all we can to invest in today's economy.

Thank you for the opportunity to present my views today and I will be happy to respond to any questions.

The CHAIRMAN. Thank you, Mr. Brantley.  
Mr. Paap, you are recognized for 5 minutes.

**STATEMENT OF KEVIN PAAP, CORN AND SOYBEAN  
PRODUCER, GARDEN CITY, MN**

Mr. PAAP. Thank you, Mr. Chairman, for this opportunity, Members of the Subcommittee. My name is Kevin Paap. As mentioned, I am President of the Minnesota Farm Bureau, but today I would like to talk a little bit as a fourth-generation family farmer. We raise corn, soybeans, and boys, boys being the most important crop. You know, sustainability is important in all of agriculture, but generational sustainability is the most important.

When I had this opportunity presented on me, I consulted my bankers, some other bankers, crop insurance agents, farm management instructors, machinery dealers, and my neighbors. And most of the answers I got were all two-word answers: They were things like it stinks. It is difficult. Be aware. It is bleak. Be ready. When we talk about the financial condition of farm country, the two words everybody agrees on: It depends. It depends on your type of operation. If you are a crops guy in Minnesota, your income is down 65 percent from last year. If you are a dairy, you are up 200 percent. So it depends on the type. It depends, do you own or rent that land? It depends on your age, your equity, and most importantly, it depends on the weather.

It has already been mentioned, as we are seeing \$50 to \$100 an acre losses in crops, we are spending our own cash to meet our cash flow losses. We have working capital burn. Financial stress, it is here. It is real. It will be challenging for many. I do believe as well this is not the 1980s. I graduated from college in the 1980s and started farming. We don't want to do that again. There is going to be a need for more FSA guaranteed loans. Will there be enough money?

It was mentioned, Minnesota turkeys, we are number one in turkeys. The avian influenza, bird flu: In 23 of our 87 counties, we have 103 farms infected; 8,355,732 birds in Minnesota; over 41 million across the U.S. And to me as a corn and soybean farmer, my bottom line is thinking about one bird equals about 1 bushel of corn. What are we going to do with that nearly 8½ million bushels, billion bushels that we need to worry about—million bushels.

But it is not just financial stress. It is the emotional stress that was managed. It is the jobs. It is the dollars not spent on Main Street. And it is real. This weekend a barn 4 miles from our farm was hit. Puts us into that control area. You know the one thing that this Committee can do to help with the financial stress in farm country is the one thing important to everyone in agriculture, important to this Committee, important enough it was in the title of your Subcommittee, and that is risk management, crop insurance. This public-private partnership of crop insurance, revenue insurance, is so important. It is critical to us as farmers. It lets us use that cash, that crop, as cash, as collateral, as we borrow the money.

Really crop insurance is my banker's best friend. We always talk about beginning farmers and wanting to get that fifth generation going on our farm. One thing that is so important, certainly the ability to purchase that crop insurance at a reduced price is important, but what I heard from farm management instructors and bankers, if we want beginning farmers in agriculture, we want to

have the ability to use realistic yields, to be able to transfer those yields just shows a true picture. That means 190 bushel yield compared to maybe 170 bushel yield if you are a beginning farmer. That is \$80 an acre. That maybe means loan or no loan.

In conclusion, I want to, as I visited with a good friend, a farmer, farm management instructor, Paul Lanoue, from Marshall, Minnesota, he was the first one when I asked how would you describe it? He said it stinks. His comments were, we as farmers, we must understand our ratios. We must know where we are. We have to be able to see this train wreck ahead of us because if we understand where we are, we manage the things we can manage, there are going to be a lot of opportunities ahead. All we have to do is hold it together to get through this.

Again, I thank you for this opportunity and I am happy to answer any questions.

[The prepared statement of Mr. Paap follows:]

PREPARED STATEMENT OF KEVIN PAAP, CORN AND SOYBEAN PRODUCER, GARDEN CITY, MN

Mr. Chairman, and Members of the Subcommittee, thank you for the opportunity to provide an update on the financial health of rural America.

My name is Kevin Paap. I am President of the Minnesota Farm Bureau Federation, but today I would like to give you some perspectives on the financial health of farm country as a fourth generation corn and soybean farmer from Blue Earth County, Minnesota. Immediately after your invitation to testify I consulted my local bankers, farm management instructors, crop insurance agents, farm equipment dealers and other farmers for their assistance. I believe you can best describe the financial health of farm country in two words, "it depends".

The good news in Minnesota is that the median income for all farms in 2014 was up 3% over 2013.<sup>1</sup> However, this figure does not tell the complete story. Agriculture is comprised of varying sectors where some face good years, and others more challenging. Crop farmers continue to face steep declines in crop prices with high input costs, while livestock producers saw 2014 as one of their best years ever.

One sector of agriculture that is arguably one of the hardest hit right now are turkey and chicken growers. Minnesota is proud to be the number one state in turkey production, however, the current conditions of outbreaks of Highly Pathogenic Avian Influenza H5N2, more commonly referred to as avian influenza, has been ravaging Minnesota poultry farms at a rapid rate since late this winter. As of May 28, 2015, ninety-eight Minnesota farms in twenty-two counties totaling over 8,269,432 birds have been affected by this disease. According to a study conducted by the University of Minnesota, as of May 11, 2015, an estimated \$113.6 million of poultry production has already been lost in the state.<sup>2</sup> However, our poultry farmers are not the only ones impacted by this outbreak. With fewer birds making it to market and delays for incoming stocks of the next flocks, there is less need for inputs such as feed and other supplies. There are incredible ripple effects affecting the bigger economy. According to a University of Minnesota study, the \$113.6 million in losses as of May 11, 2015, have an estimated loss of \$202.5 million in economic activity in Greater Minnesota and nearly 800 jobs have been affected.<sup>3</sup> Unfortunately, this continues to be a devastating problem and will only continue to affect not only the agriculture industry, but the greater economy, possibly for several years. A loss of just \$1 million in direct losses causes a loss of \$450,000 in lost farm and household income, and if the lost jobs at processing plants are factored in, a \$1 million could cause \$9.3 million in lost household income.<sup>4</sup> That is a significant amount of money that will no longer make it back into the local economy.

<sup>1</sup> 2014 *FINBIN Report on Minnesota Farm Finances, April 2015*, Center for Farm Financial Management, University of Minnesota, p. 2.

<sup>2</sup> *Impact of Poultry and Egg Production Losses and Poultry Processing Losses Due to the Avian Influenza*, 2015, Regents of the University of Minnesota, available at <http://blog.lib.umn.edu/umnnext/news/2015/05/extension-analysis-economic-impact-of-avian-flu-nears-310-million-as-of-mid-may.php>.

<sup>3</sup> *Ibid*, p. 6.

<sup>4</sup> *Ibid*, p. 2.

Despite this devastating effect on Minnesota agriculture, there are still bright spots. We are off to a great start on this year's crops, the weather has cooperated to give us timely planting and continues to bless us with the right amount of rainfall and sunshine. Because of increased worldwide demand for the products we grow combined with past higher prices because of smaller crops due to the weather, farmers have grown working capital which will certainly help deal with another tough financial year.

Financial stress, it is here, it is real and it will be challenging for many. But I believe we are not reliving the 1980's—I graduated from an agriculture college in 1981 and gained a considerable amount of additional education while starting to farm on my own through the 1980's! Today I believe farmers are not nearly as leveraged, as lenders have a very different attitude towards borrowing money against real estate.

A topic that is very familiar in farm country is working capital burn. With significantly lower commodity prices and our direct and overhead costs of land rent, seed, fertilizer, *etc.* not coming down, farmers are losing \$50 to \$100 dollars per acre. We are spending our cash on cash flow losses, we are burning our working capital. Every farmer only has so much working capital.

Financial stress, it's here, it's real and it is challenging for many. Because of working capital burn, many farmers are restructuring their debt to stretch out capital payments. We are seeing many more FSA guaranteed loans, and we are seeing bankers backing out of direct loans. The question many times is will the FSA direct loan program run out of money?

The number one thing this Subcommittee can help rural America with, the must have tool we need in farming, the topic that is important enough to be in your Subcommittee name is risk management. The risk management tools of crop and revenue insurance are critical to the financial health of farm country. This private-public partnership allows farmers to customize our risk management plans and coverage levels to accurately reflect our individual yields and risks. Crop insurance allows me to use my growing crops as collateral. Crop insurance is my banker's best friend!

As a fourth generation farmer and father, and with a son living ½ mile down the road in the house his great grandfather built and sleeping in the same bedroom his grandfather was born in, I cannot help but think about the next generation. Farmers are an aging population, we need the tools to help our beginning farmers.

If I was asked what is something this Subcommittee can do to help beginning farmers, the answer would be two words—risk management. Crop insurance helps beginning farmers and all farmers be competitive and be innovative. Risk management tools are a must have for beginning farmers, their collateral to borrow money is the growing crops, they must be able to protect it. Crop insurance is their banker's best friend. An important part of a beginning farmers risk management is coverage, the ability to transfer Actual Production History (APH) yields makes a huge difference in their coverage. Insuring the corn crop at a 190 bushel per acre APH *versus* 170 bushel APH per acre calculated by county yield or transitional (T) yields means \$80 per acre. It may be the deciding factor of loan or no loan to a beginning farmer.

When I asked my friend, fellow farmer and farm management instructor Paul Lanoue from Marshall, Minnesota about the financial health of farm country his answer was also two words—"it stinks!" His comments after that made a lot of sense. Farmers must understand our financial ratios, farmers must be able to see the train wreck ahead of us and be ready to manage the things we can manage. There will be many opportunities ahead, all we need to do is hold it together through this current financial stress.

Again, I sincerely appreciate the opportunity to appear before the Subcommittee, and I look forward to answering your questions.

The CHAIRMAN. I thank the gentleman for his comments, and I appreciate all of your testimony. I am confident that we are going to get a lot out of this, and we appreciate you being here today.

I want to start the questions. First off, to Mr. Combs, oftentimes the indicators of the health of the farm economy are new and used farm equipment sales, kind of a barometer of what the farm economy is at any given time. What are you seeing in your equipment dealership, and to what extent does that provide a future outlook that farmers in the area have?

Mr. COMBS. As I mentioned, our sales are down about 15 percent year over year through April. Our concern is in the third and fourth quarters. We sold a lot of equipment at the end of 2014 that was delivered in 2015 based on people that had their commodities hedged in 2014, and they hadn't done that in 2015. So I am concerned that the third and fourth quarters and the first quarter of 2016 could be rough, and 15 percent is the minimum that we are going to be down. I think we are at as good a place as we could finish if we could hold that 15 percent reduction.

The CHAIRMAN. Okay. As I mentioned, I know you are a CPA. You are tracking these numbers pretty closely. Does that match up pretty well with national figures?

Mr. COMBS. Yes. The major manufacturers are forecasting anywhere from 15 to 25, and we are prepared to go to 25. We hope it is not any more than that.

The CHAIRMAN. Mr. Brantley, I was going to ask you about *actively engaged*, but I am going to defer to the Ranking Member because I don't want to steal his thunder on that. But I would ask you this, and to all the panelists, you guys are producers, and I know that one of the recurring themes that we have heard in testimony was sort of the international rules violations that takes place as a matter of course with some of our global neighbors. Is that lost in coffee shops? Are producers talking about that? Do they recognize how important that is to our farm economy? Can you give me a comment on that from the turnrow?

Mr. BRANTLEY. The question is, do farmers recognize the importance of trade? Yes, we do, especially in rice, where  $\frac{1}{2}$  of rice is exported around the world. It is important day in and day out. The hot topics right now are Cuba and Iraq. We desperately need a place to move this supply of rice. Cuba is a no-brainer for us in Arkansas or anywhere in the mid-South. We desperately need some help in Iraq for trying to get their government to buy our rice when we are the cheapest product around the world.

The CHAIRMAN. Okay.

Mr. Verett, your comments?

Mr. VERETT. I would say that producers in my area are very confused by all of it. I can't tell you how many times over the last 8 to 10 months as we have had farm bill meetings and we discussed about the changes in the farm bill, the first question that comes up is, why do we have to have a program that says you can't have any kind of price protection, and we have to lower our loan, and our major competitors don't fall under those same rules? They are very confused by all of it, and it is very difficult in trying to explain to them. Sometimes I have a hard time understanding it myself. But they are very confused, and they just don't get it. I mean, and rightly they don't get it. I don't get it either, and that is part of the problem that we have.

The CHAIRMAN. Understood.

Mr. Paap?

Mr. PAAP. We are fortunate in this country we can grow more than we need, and we need to use those customers of that 95 percent of the world that isn't the United States. I planted my 37th crop this spring. I know when I planted that soybean field, every other row of those soybeans, my soybeans, are leaving my state. I

mean, our financial health depends on demand, which is a relative of price. We have to have that demand. We have to have that ability to get our products to the people that want them.

The CHAIRMAN. Thank you.

Dr. Kauffman, I am not letting you out without a question, and this won't be a difficult question at all. Where do you think interest rates are going?

Dr. KAUFFMAN. So for questions pertaining to interest rates, I would refer to the Federal Open Market Committee Statement and let Chair Yellen respond to that.

The CHAIRMAN. Well done. Well done. So I guess that is going to be your answer on the record. I appreciate your answers, gentlemen, and I am sure you are going to get a lot of good questions.

We will start by recognizing the Ranking Member, my friend, Mr. Walz.

Mr. WALZ. Thank you, Mr. Chairman.

Thank all of you. Like I said, I am always so impressed with the competency and the experience. Thank you all for being here. It is helpful to us, and the complexity starts to show up. If it is complex for the folks that sit on this Committee, the challenges amongst our colleagues and then, by extension, the American public. So I wanted to thank all of you.

Mr. Verett, Mr. Paap, both of you, the full-throated endorsement of risk management tools, I very much appreciate that. We need to do—*we* meaning *us*—need to do a better job of articulating that to our constituents about why they are benefiting from these programs because it seems like it only comes home to roost—no pun intended—when you see what happened to egg prices and things that are going on up there. Now people start paying attention to these things that happen. That is why this hearing is important.

I want to just ask just a couple questions. Mr. Brantley, the Chairman has been great helping me understand more about rice. It is a different animal than some of the crops we see out in Minnesota, but this *actively engaged* provision, I did want to bring that up and maybe go to some of the other producers and how it impacts them because it is again not the one size fits all. The comment period closed last week. It is a proposed rule. What advice would you give us as we try and get this thing right?

Mr. BRANTLEY. I think this Committee set a standard of what a family farm is, and the comment period, what I see the USDA asking is for comment on what a family farm should be and who should participate as a family farmer, which is the complete opposite of what this Committee asked in the last farm bill. We are a family farm. I do have one partner who is a non-family member who has been on our farm for 25 years. Just because we have one non-family member, the way the proposal from the USDA reads is now my family farm is no longer exempt for that family-farm status. So I would look at this Committee and ask who is supposed to define that? I would hope that this Committee can work with the USDA to keep the family farms the way they are, keep the *actively engaged* rules the way they were, and not let them change it off of a comment period.

Mr. WALZ. Is this unique to rice? Or, Kevin, are you hearing this from our folks out there? Is it a little different on how the structuring is? Because I know they are not all structured the same.

Mr. PAAP. It is those family partnerships or those operations that have somebody not involved in the family, and that many times is the case where there is someone that is not a family farmer, not a member of the family, in that operation. So there will be many family farms that it might not have any impact on, but there will be some. I guess my answer is the same, Mr. Walz: It depends.

Mr. WALZ. Okay. We appreciate it, and now is the time for us to speak out on this, so I very much appreciate that, and we are very interested in making sure we get that part right.

If I could go on to ask the witnesses now it is kind of a reflection period where we just closed out the software and we had the first sign-up period on ARC and PLC. What is your impressions on how that went, how the process went? I guess we are not going to know the impacts of those programs for a while, but if somebody could give your impact, your input on that.

Mr. COMBS. I am familiar with two county offices in the Boot heel of Missouri, Dunklin and Pemiscot Counties. And the employees of the Farm Service Agency did a tremendous job of getting people in and getting the work through the process. As complicated as the farm bill was, for them to be able to be educated and get all the producers in and signed up, they did yeoman's work at USDA. I can't say enough good about the Farm Service Agency at the local level.

Mr. WALZ. Go ahead, Kevin.

Mr. PAAP. I have had the good fortune of knowing Deputy Secretary Krysta Harden for over 20 years, and I would just echo the comments I put in my February 19 e-mail to her. I arrived at my local FSA at 2:02 p.m. I waited 45 minutes, which I knew I did. I didn't have an appointment. I walked in. I sat down at one of the seven desks at the Blue Earth County FSA. It took me 12 minutes to update my yields. It took me 6 minutes to sign up for the ARC county. It by far, with the technology and the preparation, was the easiest farm bill I have signed up for in my farming career.

Mr. WALZ. I wish Health and Human Services would listen to them. Thank you all for that. It is good stuff if we get some other folks asking questions. I want to end with, because it is trying to explain this risk management to our constituents is really something we need to keep focusing on because it is too critical to allow the politics to undermine it in any way. I yield back.

The CHAIRMAN. I thank the gentleman.

I recognize the full Committee Chairman, Mr. Conaway.

Mr. CONAWAY. Well, thank you, Mr. Chairman. I appreciate that. One quick question for Mr. Verett.

Steve, in your written testimony and also in your oral testimony, you made a reference that traditional crop insurance was not designed to meet anti-competitive practices by our trading partners but, in fact, were designed for low yields, weather impacts, revenue swings, that kind of thing. Can you expand on that for us as to how that works or doesn't work?

Mr. VERETT. Well, crop insurance is primarily to protect on yields, but certainly the revenue products are very important. But



they only account for change of price within a crop year. If it starts out kind of low to begin with, there is not much protection offered, and that is what has happened in cotton. When we are talking about the things that are going on in the international markets, and specifically what I mentioned about China and their effect on the world market and what is happening, crop insurance can't account for that. It just can't. It does a great job. It is very necessary on protecting me on yield loss and revenue loss within that year, but it was never intended to be in place for long-term or extended low prices, and that is what lots of times happens with some of the international problems we have.

Mr. CONAWAY. I appreciate that.

Mr. Brantley, you mentioned trade with Cuba and selling rice to those guys. Can you walk us through what the current state of affairs is with respect to what the barrier to selling rice to Cuba is right now?

Mr. BRANTLEY. We are waiting on the word *go* from our U.S. Government.

Mr. CONAWAY. Well, isn't it really just a financing issue? You can sell rice now if you can convince the Cubans to pay you way ahead of time. Right?

Mr. BRANTLEY. Well, through a third party, is the way I understand it. And we did that the last time we did it in 2006, somewhere in that neighborhood, but through a third party, which was something that did not work.

Mr. CONAWAY. Okay. Selling whatever commodity to Cuba, would it be better to be able to sell to just the government-owned entity that is your one contact, or would it be better to sell to co-ops and others across all of Cuba that might spread the wealth. It is a leading question.

Mr. BRANTLEY. That is tough to answer. I think the first thing you do is start selling to the government entity.

Mr. CONAWAY. To the entity that is run by the—

Mr. BRANTLEY. Just to start the process, and then let the fair trade take over from there. I believe if you start, we start selling commodities to Cuba, that there will be—

Mr. CONAWAY. Well, we are selling now. We just have some artificial barriers that came with the Bush Administration that make it really difficult. Right?

Mr. BRANTLEY. We haven't sold any rice since 2006.

Mr. CONAWAY. I appreciate that.

Mr. Chairman, I yield back.

The CHAIRMAN. I thank the Chairman.

I recognize the gentleman from Nebraska, for 5 minutes.

Mr. ASHFORD. Dr. Kauffman, I am happy to see you are a graduate of Iowa State. My son Tom is enrolling in Iowa State this year, so we are excited in our family for that.

Let me, if I could, just ask you—and thanks for coming, and your testimony is interesting. And I did note from our local paper, the *Omaha World-Herald*, a couple weeks ago referenced the fact that Nebraska was the one state in the country that did not see an increase in personal income from 2013 to 2014, so it is related obviously to ag and prices, and I understand that. From a banker's perspective, as we look forward out 5 years, let's say, what are the

benchmarks—you noted a few of them in your charts here—but what are the benchmarks you look at as we go out 5 years to think about how we can plan for the future in ag in our state and across the country? What are you looking at, good and bad, in evaluating the future out 5 years?

Dr. KAUFFMAN. As was noted in some earlier testimony, it depends somewhat on the crop sector *versus* the livestock sector. We have seen extremely high prices in 2014 in some of Nebraska's livestock sector. When you talk to bankers—and this is true for Nebraska, as well as surrounding states, that do depend relatively more on agriculture, there is a strong emphasis and growing emphasis on working capital and liquidity. As has been noted in some of the testimonies, farm income has been projected to decline 43 percent from 2013. I would note that that is still relatively an average with the long-term average—that is on trend with the long-term average—but it is a sharp reduction from 2013. So many bankers are noting that that is an adjustment in agriculture, recognizing that to get through the setback, producers will need to focus on working capital, maintaining liquidity, looking at balance sheets, thinking very carefully about efficiency, and cutting costs whenever possible. That is the focus for agriculture, and as you noted, there are a lot of industries that directly and indirectly then depend on agriculture.

Mr. ASHFORD. Thank you. And the comment was made about looking forward to the fifth generation of farming in his family—which is very neat, by the way. I am a fifth-generation Nebraskan, and it is important to have that continuity. As the difference between small farms, and it was referenced in earlier testimony—or not small farms but young farmers getting into the business *versus* others and the difficulties that they have, can you express that a little bit from the financial perspective?

Dr. KAUFFMAN. Sure. So for young farmers that have been getting into the business, say, in the past 3 to 5 years when land prices were rising and other prices of agricultural commodities and input costs were rising, that is a difficult environment to get into a business. So for young producers that has been a difficult position. I think that bankers would also say that young farmers typically have a harder time simply because they haven't had the years of equity that many of the older operators have had in terms of building up low debt-to-asset ratios, maybe owning the farmland outright and not being dependent on, let's say, cash rents on a year-to-year basis that also then present their own level of risk.

Mr. ASHFORD. So when we are looking ahead 5 years or 10 years and we see that situation with the younger farmers, how does that play out then? What needs to happen? Prices need to go up, obviously, but what needs to happen to get us to a place where the younger farmers can start to get the benefit of some of what their parents have?

Dr. KAUFFMAN. I think right now the environment that we are in is low profit margins, and efficiency is ultimately being emphasized, so it could take some time. It could take some adjustment for young farmers to be able to get to the point where they have maybe realized scale that is sufficient enough to get some of the benefits of better profit margins. But for right now, it is just a time

of sort of looking very carefully at where they can cut costs in an environment when costs have remained relatively high.

Mr. ASHFORD. Thanks.

I yield back.

I thank the chair.

The CHAIRMAN. I thank the gentleman.

I now recognize the distinguished Chairman *Emeritus*, the gentleman from Oklahoma, for 5 minutes.

Mr. LUCAS. That is a very polite way of saying *the old guy*, and I appreciate that, Mr. Chairman.

Dr. Kauffman, I started farming in 1977, thanks to my maternal grandfather's willingness to co-sign a lease on an old, worn-out farm and to co-sign a note at the bank. Being under age, I wasn't old enough to do that on my own. So by the mid-1980s, I had still not purchased any land, but I watched what happened when the world fell out from under all of us.

Let's talk for a moment about the circumstances now compared to then. In the mid-1980s, we had gone through a runup in land prices, most of it financed by debt, most of it financed by the most amazing leveraging of assets to get there. And when the air went out of the balloon, it took out an entire generation. You mentioned the cooling in land prices, can you compare the circumstances now with the 1980s. How much of this increase in land value and land purchases have been financed with equity now *versus* debt or almost total debt in the 1970s and early 1980s?

Dr. KAUFFMAN. I think there is a distinction. You mentioned some similarities, and when you look at the early 1980s coming out of the 1970s, certainly we had a runup in farm income, runup in farmland values. And to that extent, we have seen some of those similar signs today. You mentioned leverage, though, and that is one of the differences. When you look at measures of debt-to-asset ratios as an example, it has been about 10.6 percent in 2014. It is expected to maybe tick up a little in 2015. So on average, leverage is not being used as extensively as it had been in the late 1970s. With that being said, there are, of course, as you have had some consolidation in the farm sector, that doesn't mean that credit exposure at an individual level would be higher.

Mr. LUCAS. And you, Mr. Combs, as bankers well, understand—

Mr. COMBS. The big difference is interest rates. We don't have 18 or 20 percent interest that a farmer told me Jesus Christ himself couldn't pay 20 percent interest.

Mr. LUCAS. Remember part of the hook in the early 1980s was we went from price controls on interest rates that dated back to the 1930s to turning them loose. I borrowed cow feed money at 17 percent and was so happy to get it and had so much equity at the time, but that is just what the rate was.

That said, if we were to continue to see a downturn in land prices, younger farmers, beginning farmers, just as in the 1970s and 1980s, would be hurt, would be under pressure. But a lot of pressure this time or a lot of the loss would be sustained by older, established farmers—correct—who have used that equity in the last 5 years to purchase those farms? They would still have the

land. They just would have a different balance sheet. Fair statement?

Mr. COMBS. That is a fair statement because the banks, rural banks in the Farm Credit System, the life insurance companies that loan money in our area, have been much more stringent in their underwriting requirements and their appetite for the amount of leverage they would allow on a farm. So as the values have gone down, the people still own the land, but it is just that their balance sheet, their net worth, has shrunk, for lack of a better term.

Mr. LUCAS. So we did learn from the pain of 40 years ago.

Mr. Verett, you and I are from a region of the country where we have an extra issue on top of all of these, 5 miserable weather years in a row. The weather has changed, at least in my part of the great Southwest. I see some clouds passing over your folks on the radar screen too. I don't know what that has done to your planting program for the spring and summer, but I see the weather change. Describe for a moment, crop insurance never makes anyone 100 percent whole. Describe to us for a moment what the last 5 years have done to producers, not only in cotton but in the other commodities in your region of the country.

Mr. VERETT. Well, as you mentioned, crop insurance is never intended to fully replace a crop. I will say, we were fortunate if we were going to have had the drought when we did, especially in 2011 and 2012, from a cotton perspective, was one of the highest prices that we had for cotton. We didn't grow any, we weren't able to sell it, but that was reflected, as I mentioned earlier to Mr. Conaway, in crop insurance because it was high, it did help come a lot closer to replacing that crop, not having. As you well know, no one insures in our part of the world in Texas and Oklahoma—if you get to 70 percent, you are on the high end of insurance, and most of our guys are in that 55 to 65 percent range, so you still have a significant amount of your cost unprotected no matter what the price is. So, yes, it has started raining, and we are very blessed with that. But as I said to my son, it brings a new set of challenges.

Mr. LUCAS. And we start with a 5 year period coming out of where we have not had the crops we would have had at those prices, missed opportunities. We are in a different position than some of our neighbors maybe who had 5 great years.

Mr. VERETT. That is right.

Mr. LUCAS. That said, one last question. What do you say to one of my colleagues or somebody in the House who says, "Well, if cotton is not a good deal, go raise something else"?

Mr. VERETT. Well, you know very well, Mr. Lucas, that our part of the world gets about from 18" to 20" of rainfall and we don't have the good fortune to be able to plant corn or soybeans. Sorghum is an alternative. Wheat certainly is an alternative. But for the great preponderance of our area, cotton is the best choice. Plus you mentioned about what is happening with the drought. The biggest effect of the drought over the last several years is the infrastructure. Producers have been able to weather it, thank goodness to crop insurance. But if you are a cotton gin or you are a cotton oil mill press or just a business supplying inputs to those farmers, they are the ones that is been hurt the most. So we have that in-

frastructure. As a guy told me one time that owned a cotton gin, he said he hasn't figured out a way to run grain sorghum through that cotton gin yet. So we are very invested in the cotton industry, and it is the best fit for our area as well.

Mr. LUCAS. Mr. Chairman, if you indulge me for 10 more seconds, what Mr. Verett is saying about cotton is a reflection of many of the commodity groups raised across the country; they are raised because of the nature of the soil, the weather, the climate, the circumstances. It is not just an accident that you raise corn in Indiana or cotton in that part of Texas or wheat in western Kansas. It is not an accident. It is the best fit.

I yield back, Mr. Chairman.

The CHAIRMAN. Well said. I appreciate that.

I am pleased to recognize the gentleman from Georgia, Mr. Scott, for 5 minutes.

Mr. DAVID SCOTT of Georgia. Thank you, Mr. Chairman.

I would like to keep the line of questioning on, as Chairman Lucas was talking about, and that is cotton. I don't know how many people know this, but my State of Georgia is the second largest producer of cotton, second only to Texas. So I want to focus my comments on that.

As you know, the cornerstone of the farm bill was the insurance, crop insurance, programs, and we have the Agricultural Risk Coverage, ARC, where payments are triggered when actual county crop revenue falls below a certain percentage. Then we have the Price Loss Coverage where payments are triggered when the price of a crop falls below its reference price. But then we have STAX. This is the new deal and cotton is coming under it for the very first time. And I have always had some concerns about that to make sure we treated our cotton producers very fairly, but there is one area where our cotton producers are not being treated fairly, and particularly in my State of Georgia, which I like to kind of focus on, and the issue is this: For this current year regarding cotton and STAX, there is great concern in my State of Georgia in the way that this plan is moving forward. And I am sure in other parts of this country may also have some problems.

Now specifically the concern is the way that counties are being grouped and assessed for STAX payments. As many of you know, STAX payments are triggered only when an area's average revenue falls, and oftentimes the areas used for evaluation are based on boundaries that typically fall within county lines. Oftentimes an area includes several counties that are grouped together.

Now I have concerns that there are counties being grouped together and assessed for the same payment structure when, in fact, they do not share any form of the same boundary line, nor do they even experience the same weather pattern.

And, Mr. Verett, you and Mr. Lucas just got through discussing how important weather patterns are to the production of cotton. For example, in my State of Georgia there are cotton producer farms that are located in counties, such as Morgan County or Walton or Oconee, which are situated in the northern part of Georgia. However these counties in the northern part of Georgia being grouped and assessed for payment with counties to the south of where they are located. It would seem to make sense for these

counties to be grouped with producers in counties to the north, northwest, not to the south. This is particular, too, in Georgia; it is almost like grouping producers in New York and New Jersey with producers in Virginia. The weather pattern, my state is a large state. If any of you, as you watch the weather patterns and you watch the jet streams, there is a divide where that jet stream comes right through middle Georgia, south of Atlanta. And when you get that way, north of Atlanta is in the mountains, is up. Toward the south, you are more acquainted with, associated with Florida and that area.

So what I am asking for here, and, Mr. Verett, is for you, if you could comment on this, and if other members on the panel have similar issues within their own states, their own areas?

Mr. VERETT. I know when the STAX program was put together, and it is the same for SCO as well, they are both as such area-wide trigger programs, the idea was—and I can't say that I am absolutely familiar with Georgia, I know the theory you are talking about and what you are talking about, but there had to be a certain amount of acres in a county for it to stand on its own, basically. And if it wasn't enough, then they were supposed to go to like—go out. They had like a circle, they went out to adjoining counties. I am not aware of any counties that were joined together in one region of the state and then not be contiguous, but that may very well be the case.

What I would say to you, Mr. Scott is, now I know that the National Cotton Council—I served on a committee in helping implement STAX, that they stand ready to work with you, and I know that their staff would be more than willing to visit with you, and then go to USDA. We have been really trying to have a very close working relationship with the Risk Management Agency in trying to make this program work as good as it can.

Mr. DAVID SCOTT of Georgia. Right. Well, thank you.

Mr. Chairman, I just want to make a point. Even when you get the boll weevil involved, the occurrence in the variations of that insect being impacted is dictated by the weather. And from north Georgia to south Georgia is a 25°, 30° separation. So I would just like to ask if our Committee could go on record to encourage the Department of Agriculture, and more specifically the Risk Management Agency, to take a serious look at this so that we can make sure that we are treating our cotton producers fairly in Georgia and other parts of the country who might have this problem.

The CHAIRMAN. Absolutely. We are very committed to working with you on that. I appreciate you bringing that up.

I am pleased to recognize the gentleman from Texas, Mr. Neugebauer, for 5 minutes.

Mr. NEUGEBAUER. Thank you, Mr. Chairman. Thanks for holding this hearing.

Mr. Verett, there has been a lot of discussion about STAX, and one of the things that we are hearing, and you and I have had this conversation, is the participation rate seems to be pretty low in STAX. And STAX was designed to kind of be the alternative, I guess, due to the fact that cotton lost a lot of its commodity title support.

Can you kind of elaborate on why you sense a lot of producers don't find STAX to be beneficial for them?

Mr. VERETT. I think there are a couple of reasons. Number one, it is area based, as you well know. So it is not dependent on you. It is dependent on what happens in the county. I think the fact that we had started getting rain and our situation looked better than it had for a number of years. Also, the county-expected revenue is based upon the last several years, and because of the drought, that is down very low.

So the target revenue for STAX was low, especially on dryland and on non-irrigated, and you could separate between non-irrigated and irrigated. Plus the price was not that great to begin with. So I just think most people opted, especially non-irrigated, to just buy more underlying coverage. I think that is one of the main reasons, coming out of the drought.

I just think there is unfamiliarity. Most people, when they buy crop insurance, whether it is hail insurance or underlying insurance, it is on their farm. Even though more people are using enterprise units and becoming more familiar with it, and as time goes on this will be another tool. I still think it is a good tool. It can protect you, especially from catastrophic price risk. It is almost like buying a put option, is what it is almost like. But the main thing with low participation was just the fact we are coming out of a drought and the prospect looks so good.

Mr. NEUGEBAUER. Has there been some discussion too about, well, farmers being able to get financing, and we are certainly hearing that, even from our banker friends that the farmers that are coming in have—particularly in our area that have been subject to this drought for 3 or 4 years, and really hadn't, like you said, and some of the other witnesses, been able to bank any reserves.

What are you seeing from a perspective of has it been much more difficult this year to get financing for your operations?

Mr. VERETT. There is no doubt. Like Kevin, I talked to a couple of bankers and some equipment dealers before coming and putting my testimony together. I had one equipment dealer tell me that he had nine producers that were still waiting on decisions about operating loans for 2015, and those were all FSA decisions. They are borrowers that were waiting on decisions out of FSA.

There is no doubt that that is the case. There is significant carry-over in the business, and there is some that is not. It is not like cotton. The irrigated cotton farmers over the last several years that have been able to take more advantage of some of the price have done better than the non-irrigated guys that didn't have a crop. So it is not like it has been total doom and gloom in the cotton business, but it has just been tough.

But even those that have been successful in getting financing, most of those folks are eating into their own equity to do that. I mean, the only reason they were able to pay out after 2014 was they put a bunch of their money in on the front end before they started borrowing money, and they just didn't have as much to pay back. But this is why this year is going to be critical.

I appreciated the questions of Mr. Lucas about the 1980s, and there is no doubt it is not what it was in the 1980s, mainly because

of what Paul said, that is when I started farming, and the interest rate differences. But I can tell you as well, though, that where land prices have gone, and they haven't escalated near in our part of the world as they have in lots of the country. They have escalated pretty well, and those are going to be tough if people weren't buying with equity, it is going to be a tough situation if they are leveraged very much on that land as we go on the next few years.

Mr. NEUGEBAUER. Thank you.

Mr. Combs, you mentioned section 179, and one of the things that was frustrating to a lot of producers in my district and even small businesses, not just agriculture, was the fact that we didn't do anything on that until the very end of the year. And obviously a lot of people are trying to make some buying and decisions on investments whether and—can you kind of just articulate how important it is to have some stable tax policy so that you as the equipment dealer but also as your customers can make those capital decisions?

Mr. COMBS. Well, the scale of farming has gotten so much bigger that customers tend to plan their purchases well in advance. And what we saw is that the year before it had been extended earlier in the year, and so people, after their crop was produced, say at the end of September, they knew that they had the ability to use the section 179 deduction and determine whether they were going to make purchases at the end of 2013.

In 2014 we had some people, particularly these people that had their crops hedged, that had the ability to make the purchases, but they were wanting to take advantage of section 179, and they just weren't sure it was going to be there. We kept getting word back from D.C. that they are going to get it done, they are going to get it done, but the—I guess they had seen enough stuff not get done that they were skeptical of that, and we had some people that would have purchased otherwise that absolutely didn't because it didn't happen until the very end of December. And so our message is if we can get it stable or if we can at least know where we are by the beginning of the fourth quarter, it would really help us.

Mr. NEUGEBAUER. Thank you.

The CHAIRMAN. I thank the gentlemen, and recognize the gentlelady from Arizona, for 5 minutes.

Mrs. KIRKPATRICK. Thank you, Mr. Chairman.

I just wanted to ask one follow-up question to the land prices and the rent prices.

So we keep hearing that they are going up. And my question is for all of the panelists, if you could just tell me what is happening in your region. Are rent prices and land prices up, down, flat? Do you see a trend, and if you do, what that trend is.

So we will start here. Thank you very much.

Mr. PAAP. Land prices certainly have not come down like commodity prices have or input prices have not come down. Land rents, it kind of depends how you treated your landlords in the good years. Those farmers, those renters, that made a little more money than they expected so they shared that with their landlords as a bonus are flexible. Now as things are tighter that we are losing \$50 to \$100 an acre, those landlords are very much more willing to negotiate on those rents. Those that didn't share in the good



times that still have contracts, those landlords are holding us to those contracts.

Mrs. KIRKPATRICK. And do you see any trends?

Mr. PAAP. The trend we will see is they have to go down. And it might take the bankers to tell us there is no way you are going to pay that for rent. We don't like to give up. I have usually about one opportunity a lifetime as we look at area farms in our neighborhood. As farmers, we never like to give up land, and we always are looking at the opportunities in the future. But there is going to be some that—land is going to—as it was explained to me by a farm management instructor, there is going to be a fruit basket upset that we are going to see here soon.

Mrs. KIRKPATRICK. Yes, please.

Mr. BRANTLEY. Land prices in our area have not come down. If anything, they have gone up the first quarter of 2015.

For crop rents in Arkansas, we are predominantly crop share. So those adjust year in, year out. The land that has been selling the last few years in Arkansas is the unimproved farms, the less desirable farms. The good farms haven't sold. I would hate to know what they would bring today. But you would think with the prices and the reckoning that is coming, that land prices have to come down some.

Mrs. KIRKPATRICK. Do you see any trends in that direction right now?

Mr. BRANTLEY. Not at all.

Mrs. KIRKPATRICK. Not at all. Okay. Thank you.

Mr. VERETT. As I mentioned earlier, land prices in our part of the world have not gone up as much as certainly the Midwest and even the mid-South, but they did increase pretty significantly. I would say they are flat. They are not continuing to go up. All of our rental agreements are crop share rental agreements. There are very little, if any, cash rents in my part of the world because it is just too risky. Nobody can lay out a guaranteed amount.

But I can tell you, there is already talk beginning between land owners and operators on adjusting rental agreements. And they are going to have to be adjusted. And in a crop share it is basically that the owners have to take on more of the share of the inputs than what they are doing today. With seed costs, very few land owners pay seed cost. Seed cost is about \$70 to \$80 an acre now to plant cotton. That is one of the biggest costs we have up front.

So there is going to have to be some adjustment or there are going to be—folks are just not going to be able to do it if prices don't improve.

Mrs. KIRKPATRICK. Well, and as you know, cotton is a big crop in Arizona.

Mr. VERETT. Yes, ma'am.

Mrs. KIRKPATRICK. So my cotton farmers are dealing with this. And thank you.

Mr. COMBS. In our area the land prices have softened anywhere from 10 to 15 percent. Rents have come down. And the only thing that hadn't forced the land down further is the low interest rates. In other words, the lack of return that institutional investors can get for their money somewhere else. There has been a lot of institutional money that has bought big tracts of land for cash, and as

those institutional investors can do something better with their money, then that could pose a risk to the price stability of land in our area.

Mrs. KIRKPATRICK. Thank you. I have about 30 seconds left. Thank you.

Dr. KAUFFMAN. I would say in our area in Nebraska, Iowa, Illinois, in the heart of the Corn Belt, we are starting to see land prices soften on the order of about ten percent. Cash rents have maybe been a bit slower to adjust, and as has been noted, with cost being an important determinant of profitability, that is an area where over time there could very well be further pressure on cash rents and farmland values to adjust to the lower profit margins.

Mrs. KIRKPATRICK. Thank you, panelists. Thank you very much for your testimony, and I yield back.

The CHAIRMAN. I thank the gentlelady. I recognize the gentleman from Georgia, Mr. Scott, for 5 minutes.

Mr. AUSTIN SCOTT of Georgia. Thank you, Mr. Chairman.

I am going to continue along that same line, but before I do, Mr. Verett, I want to go back to what you said about the low commodity prices. Cotton, for example, being as low as it is, that is cotton pickers that don't sell at the tractor dealership. That is cotton gins that don't run as much cotton through. It is important that we understand that when commodity prices go down, it doesn't just affect the farmer, it affects the whole community.

And as someone who is from Georgia who represents 25 counties, the largest part of the economy in the majority of the counties that I represent is at farm gate value, and so when these commodity prices go down, it has tremendous impacts on local school systems, the hospitals. It affects everybody in that area. And so I am certainly concerned about that.

But I want to go back to the last comments. It used to be that when you were looking at buying the land next door that you were competing with the person who maybe lived on the other side of the land. And now, as you alluded to, you are not competing with them as much as you are competing with pension plans or other people who are investing not hundreds of thousands or millions of dollars, but in some cases hundreds of millions of dollars. And certainly, that has changed the dynamic of land values.

And so, Dr. Kauffman, as you mention in your written testimony, with land prices softening, we hear in many cases that prices are still incredibly high. How much of that do you attribute to pension plans now and other commercial investors like that purchasing land? Do you see a bottom falling out of this? In those pensions, how do they mark their books with the value of that property if that property value falls?

Dr. KAUFFMAN. I think that there has been some investor interest in farmland certainly in large parts of the Corn Belt as well. I would say, though, more recently much of the farmland that has been selling in our area and throughout the Corn Belt has been predominantly from farmer interest.

So it is typically farmers that are looking at their own operations and long-term planning and thinking about that being an opportunity that might not come along all that often. So much of the activity more recently has been for farmers that may even be willing

and in a financial position to be able to pay a premium for land that they consider to be a very good opportunity.

Mr. AUSTIN SCOTT of Georgia. I know that the foundation of our local college purchased a farm in Texas, for example. So a Georgia college foundation buying a farm in Texas because they felt like it was a better investment than bonds. And I guess if your bond values fall, you have to reflect that at least on an annual basis, but do they have to reflect the variances in land prices?

Dr. KAUFFMAN. That may well differ depending on the specific case that you are referencing, but I think that investors and others are looking at many of the same things that others are looking at in the investment world and thinking about where they may get attractive returns, and certainly there has been attractive returns in agriculture production over the course of the past 5 years.

Mr. AUSTIN SCOTT of Georgia. That is because commodity prices have been good, and now that they are not so good it is going to be interesting to see if that continues.

One of the things that concerns me about the President's budget that he put forward to our Committee, especially with regard to ag lending is that he proposes to take away a lot of the participating loans and move them to direct loans from FSA instead of them being guaranteed, if you will, where your local bankers participate in that.

Could you speak to that? And why would he propose that? Doesn't that by definition take capital out of those loans if the local bank was going to participate?

Dr. KAUFFMAN. I am not sure if I understood the question. I wouldn't want to speculate as to what some of the decisions were behind that, but certainly the FSA has been involved in some of that.

Mr. AUSTIN SCOTT of Georgia. Mr. Combs, you are on a bank board, aren't you?

Mr. COMBS. Yes. The FSA wouldn't have the staff. In our area FSA on the subordinations and the guarantees, a lot of the banks will work up the loans and get FSA's blessing on it on a subordination or participation, and we have two guys full time in the Dunklin County office, and one full time in the neighboring county. You would have to ramp up the employees to the point—and I am not sure of the savings it would accrue back to the government after you got done hiring people, and then the thing that will happen is if they are not efficient about the way they do it, the people will be out of business when the loan doesn't get made.

Mr. AUSTIN SCOTT of Georgia. Mr. Combs, I am out of time. That proposal was kind of short sighted in what they put forward, and I certainly hope that we keep more of the participating and guaranteed loans instead of the direct lending.

Mr. COMBS. It is working now.

Mr. AUSTIN SCOTT of Georgia. But, it is not the farm guys up here that say if it ain't broke, don't fix it. You know, it seems to me in Washington, if it ain't broke you go meddle with it.

The CHAIRMAN. The gentleman's time has expired.

I recognize the gentleman from California, Mr. LaMalfa, a rice farmer, for 5 minutes.

Mr. LAMALFA. Thank you, Mr. Chairman.

From the number one rice growing district in the country evidently here, so appreciate it.

You know, a subtext of this Committee, or maybe a different committee hearing, would be an update on the mental health of California's water policy. I mean, no storage built since really the 1970s—well, really more the 1960s in California: 15,000 acre feet released the other day to help six fish go down the stream, which, thanks a lot to Bureau of Reclamation and the Endangered Species Act.

We have much, much ag land already idled in our state because they are letting it all run out to the ocean pretty much. Yet *The New York Times*, for example, still claims in editorials that 80 percent of California's water is used for agriculture. They don't count of the whole 100 percent that 50 percent goes for enviro-water or just letting it run out to the ocean: 40 percent is for ag, and the other ten percent is for cities. So there is a lot of frustration with that.

People are now starting to take the ideal that in California that: Well, we are farming this desert anyway. We shouldn't be using water for that. We are exporting our water because we are exporting almonds, exporting rice, exporting the truck crops, the vegetable crops and all of that. We should keep that here. So the mentality seems just grow your own garden, evidently. So there is a lot of frustration about that.

So when you add all this up together, exports are bad, well, for the purpose of this hearing, I guess there is really no amount of risk management or crop insurance that can fix that kind of stupid. Right? So there is a lot of frustration.

But getting back to what we are working on here today, is that our own government's trade policy—I would like to direct this to Mr. Brantley. You were concerned about, in regards to our trade here, that we are not doing enough. In the TPP that is coming up, for example, what is the value of TPP going to be if not some of the issues involved with the negotiations? How is this going to look for U.S. rice, whether it is Arkansas rice, California rice, in concert to what you said in your testimony a little bit earlier? How is that looking to you?

Mr. BRANTLEY. If we are not allowed to increase rice sales to Japan, it is of no value. That is part of these negotiations, and that is the one thing that Japan keeps holding out. We, USA Rice, is in support of TPP only if we can get increased sales of rice to Japan.

There is another issue that you have with the—I believe the bilateral agreement is Mexico and Vietnam are in discussions. We have no idea where that is going. But if Vietnam is allowed to come in with their rice duty free. That is the number one export for southern long grain rice.

So we have a lot of issues at hand. We are in support of trade negotiations. Fair trade, I believe, is the best way for us to move our commodities around the world.

Mr. LAMALFA. So since our newspapers in California say we shouldn't export any more because we are exporting water, you have too much water there, so it would be pretty important for—

Mr. BRANTLEY. Be glad to give you some. Yes.

Mr. LAMALFA. Yes. Okay. I will be happy to run the pipe over there. Okay.

Has your operation been impacted by RMA's decision not to offer a rice revenue crop insurance policy for 2015?

Mr. BRANTLEY. Say that again?

Mr. LAMALFA. When RMA didn't get the rice revenue crop insurance policy ready for 2015, how were you impacted on that on your operation or your neighbors that you are hearing about?

Mr. BRANTLEY. Well, it excluded us from participating. The story is yet to be told. How low would the price of rice be depending on where we thought that spring price should have been. Rice is so thinly traded, it seems that we are always the last commodity to participate in whatever the next program should be.

Mr. LAMALFA. I hear you.

Mr. BRANTLEY. And we needed it desperately. Rice's price has gone down dramatically, and if we had a revenue price it would have paid off this year. Just from the price alone. Not necessary the yield, but just from the price alone.

When you think about insurance for rice and our yields are so stable, rarely do we have a claim on an insurance policy—

Mr. LAMALFA. Yes, yield isn't the problem. It is usually price.

Mr. BRANTLEY. Always on price.

Mr. LAMALFA. Same thing in California as well. For 2016, if we are not looking at some amazing weather this year, I don't know what we are looking at in any ag in California.

So, Mr. Combs, real quick. You mentioned the section 179 program. I am sorry we don't move faster around here, but I was able to tell some of my growers who caught me: "Hey, Doug, you guys going to get that thing renewed this year?" And I told them: "I think so." I think you can figure that Congress will get that done, but you need a little more predictability. So we will try and do better on that in the future.

And I have used my time. And I might come back to you in the second round's time.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman's time has expired.

I recognize the gentleman from Illinois, Mr. Bost, for 5 minutes.

Mr. BOST. Thank you, Mr. Chairman.

If I could, I would like to ask Mr. Combs a few questions mainly because you are the one of the panel there that is the closest to my home. I could throw a rock across the river and down in the—

Mr. COMBS. We have a dealership right across the river from you in Illinois. A lot of customers in Illinois.

Mr. BOST. And that is what I want to ask you about. On these dealerships, I can look around, and whether it is over on your side of the river or my side of the river, there is a lot of equipment sitting—

Mr. COMBS. That is not good.

Mr. BOST.—and waiting to be purchased, yes. And what I am needing to find out is, with these lower prices, what are you hearing from the lenders on any suggestions or any encouragement into—and are people willing to even take the risk to purchase new equipment?

Mr. COMBS. It is on an individual basis. If the customer had a good year in 2014, the lenders have been very willing to allow purchases. We have had a couple of cases dealership-wise where we were dealing with customers, and I have seen it on the bank side where the customer paid out in 2014, but they didn't have a big cushion and the banks advised them not to purchase the equipment. And when you have lowering commodity prices, usually the equipment values follow along.

And so you are in a situation where you have equipment values that are falling, and you need to be selling it to people who may be being told by their bankers not to buy it. So it is kind of a Catch 22. The equipment will get worked through the system, but there is an excess particularly of used equipment sitting out there.

Mr. BOST. And that is for used equipment. For new equipment and because I am a real stickler—I came from the trucking business. Okay? And I don't like big government a lot. I really don't. I think we kind of overstep many things.

What has happened to the price of equipment to try to meet a lot of the standards set forth as far as EPA standards, other things as far as—

Mr. COMBS. The equipment has become more expensive in order to meet the emissions requirements. In other words, the equipment won't do any more than it would before, but there is increased costs both in terms of the cost of the equipment and the cost of the DEF fuel that we have to—or the DEF fluid that we have to put in with the fuel to—in order to meet the air standards, and that is true on tractors and combines and things. It is also true on something like an irrigation power unit that you are just trying to run a well with those small units are having to meet those same emission requirements.

Mr. BOST. Well, and I don't have many questions, but that is the concern I have is is that, once again, whether it is ag or whether it is the trucking business or every business that seems to be out there, we end up putting undue strain or a heavy collar and a heavy burden on our producers when we are trying to compete in a worldwide market.

Mr. COMBS. Deere and Case are building engines without those same standards to go in tractors in Brazil.

Mr. BOST. Right. And then we are trying to compete on that level.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. I thank the gentlemen.

I now recognize the gentleman from Louisiana, Mr. Abraham, for 5 minutes.

Mr. ABRAHAM. Thank you, Mr. Chairman.

First, thank you guys for coming. To me, our farmers, ranchers, foresters, you are our national security now. The volume and the quality of the product that you grow is just unsurpassed, and it is like I told the EPA when they were involved in—this is when we were discussing the WOTUS in the Clean Water Act, there is not going to be any better conservationists or environmentalists or protector of the land than the American farmer or rancher. So like Mr. Bost here, we need to get the government out and let you guys do what you do best.

I also still live on the farm that I grew up on. So our family does farm, and I do realize that corn and soybeans are what we grow, are down a couple of dollars a bushel, but production costs, we still—costing about \$200 an acre to fertilize that corn.

So it is tough. And I am sure most of the general public understand, but maybe not all, that every time you guys go to work, it is like going to Vegas because you could have a pop-up thunderstorm today, and you could get some straight line winds and you would lay down a field of corn or a field of soybeans or a field of wheat, and you have had a bad day. We hope and we need to get that message out that what you do is very risky, and it is very touchy from day to day.

And I will start with my question, Mr. Verett—well, I will start with you, but certainly any of you can answer this.

In your testimony you said that about \$4 billion were paid by total farmers in crop insurance in the course of a year. But, again, if we go back to a large city like D.C., that maybe others don't understand the percentage of liability insurance, workman's comp, insuring tractors, insuring tractor sheds. What percentage, if you don't mind, in your particular operation does that play as far as cost? It has to be a large percentage, I am sure, but for the average farmer, for yourself, how big of an issue is that?

Mr. VERETT. Are you asking how much crop insurance is, is that—

Mr. ABRAHAM. Well, that along with the workman's comp, because we know on a farm workman's comp is very high because it is such a dangerous profession. But you have also got to insure your buildings, insure your tractors. So how does that play into the overall picture?

Mr. VERETT. I suspect when you add all of my insurance, including crop insurance, which is part of risk management. It is all risk management. I am having to talk off the top of my head, but I suspect it is going to be something in the range of 10 to 15 percent anyway.

Mr. ABRAHAM. And that is all your profit right there, if you are lucky.

Mr. VERETT. Yes. That is right.

Mr. ABRAHAM. And, Mr. Combs, I can tell you, in our family that we farm a lot, we have delayed purchases of equipment, and we usually have a 2 or 3 year lease that we roll over. And we are not doing that this year because of the uncertainty. So you are exactly right. It is a big deal.

And like Mr. Scott said, we have a Hollywood name actor that has purchased thousands of acres of land in our neck of the woods that has artificially kept land prices high, and it has not allowed our farmers that need to purchase that land to do that. So investors are playing a big role.

Mr. Brantley, I will ask you a quick question. I have a great friend in northeast Louisiana, grows a lot of rice, Mr. John Owen. You probably know him. But he has been an invaluable resource to me as far as information on a lot of things. And we have talked about that in the rice, particularly, the crop insurance sometimes isn't a viable option. Kind of going back to Mr. Verett's idea, what

other risk management tools do you use to mitigate some of your potential losses if you can't do the crop insurance?

Mr. BRANTLEY. Speaking of Mr. Owen, he is our producer group Chairman, and he has been a great asset for me and all of us in the industry.

But what risk management tools do we have? We don't have many in the rice world. We are eternal optimists. We have faith. That would be our biggest risk management.

Mr. ABRAHAM. The farmers and ranchers have always been—

Mr. BRANTLEY. We don't participate in crop insurance because our yields are stable, and the cost has been too high. And we are only subject to price risk. We are subject to a drought, but we can overcome that, as you know. Our biggest risk is foreign governments.

Mr. ABRAHAM. Okay. And one quick just follow-up with Mr. Paap, I in my previous life was a veterinarian. So I understand the turkey and the poultry cycle, but would you in just a few seconds just reiterate how important that cycle is for future production cycles. I mean, it is just not the 1 year. Is it?

Mr. PAAP. In agriculture we always talk about the weather, think about the weather, worry about the weather, and it is no different with this bird flu. We need some sunshine, some warm weather to help break that. But the weather changes again, and we are going to—we will be going through this again. So a lot of concern, a lot of not only financial anguish, but that emotional, that mental side is really taking a toll on our farmers.

Mr. ABRAHAM. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

I recognize the gentleman from Georgia, Mr. Allen, for 5 minutes.

Mr. ALLEN. Thank you, Mr. Chairman. And I want to thank our panel for enlightening us on this and what you deal with out there every day. I too grew up on a farm, and my father became a gentleman farmer for the same problems that I am hearing about here today. He went into education, and thank goodness for that, I guess.

But obviously in our district we grow a lot of cotton, and I have given a lot of thought, Mr. Verett, to your testimony today about the state of the industry and then your comment, Mr. Brantley, about, "whether we make it or not depends on foreign governments." The thing I can't quite understand is that we grow the cotton and then we send it to Asia, and then they sell it back to us in the form of, I guess, what I am wearing here today. So we are at their mercy.

And I know, of course, the rice is another issue, but as far as cotton goes, I mean, we export 80 percent of our cotton, and I guess we buy it right back in some form or another, and the government at same time is trying to subsidize this, but then, again, we see what the foreign governments are doing.

Have we talked about a solution to this? I mean, obviously the textile industry is—well, it is not present in Georgia anymore—but it sounds like we have to do something to fix this problem, and that looks like we may have to look at the whole process. I read somewhere where we import back into the country 36 percent of what



the world makes out there. So it looks like we are paying for it to go and then to come back, and have we thought about that?

Mr. VERETT. Well, you are exactly correct. We grow at most about 18 to 19 million bales in good years. This last year we grew about 14 to 15 million bales, but we regularly import into the U.S. in the form of textiles, all right, we use and consume either through imports or what we produce domestically, which isn't a whole lot, about 20 million bales of cotton. So it is not like we are producing more than what we even need to use in the United States.

So—but it does because we don't have that manufacturing anymore. Those were lost long ago. We still do a good bit of yarn spinning in the U.S. We are very efficient at that, but when it goes beyond that, certainly beyond the knitting and the weaving, we are not the low cost producers, by any means.

But the solution is that we have to have better trade agreements, more fair trade agreements. And, quite honestly, this WTO deal, these multilateral agreements, as I mentioned, rule of law is important in trade agreements, but I just don't know how we think that we can get all of these countries together that are various economic levels and we can all come together and all agree on everything at one time, and then one country can throw it completely out of whack.

We need to be negotiating trade agreements that are good for both this country and the other country that we are doing business with. Bilateral agreements are, to me, the most effective way to do those. Or at least regional agreements. We have benefited to a great extent through some of the Central American agreements in our hemisphere from a cotton perspective.

But it is not an easy answer, Mr. Allen. But it has to do with agreements and how we are going to treat each other and how those enforcements are going to be done.

Mr. ALLEN. Okay. Well, thank you, Mr. Verett. And I yield back my time.

The CHAIRMAN. I thank the gentleman, and that will conclude our round of questioning. I would like to defer to the Ranking Member if he has any closing statements?

Mr. WALZ. Well, thank you, Mr. Chairman. Thank you all. One more, if I could, just a brief question to Dr. Kauffman maybe.

I think it feels like to all of us the last couple weeks has kind of been EPA's mic-drop moment. They let a lot of stuff out pretty fast. And now it is for us to see what that means.

And if I could, Dr. Kauffman, I would just ask, could you explain from the Midwest perspective and where you are sitting on this the impact of biofuels on the broader financial economy of farm country.

Dr. KAUFFMAN. Well, in terms of biofuels, no doubt that has been a significant demand factor for U.S. agriculture, particularly as corn is one of the main inputs for ethanol production. So over the course of the years that has been a factor that has boosted profitability and in general agriculture in our region.

And so as you have seen some of those ethanol facilities and other forms of biofuel build out, that has also represented other forms of economic activity in those areas where there are jobs asso-

ciated with ethanol production, for example, or trucking or any number of other jobs that might be related to producing ethanol.

So certainly there is an impact much in the same way there would be for production of other products that would rely on agriculture.

Mr. WALZ. And you probably haven't had time to assess the impact of the current proposal?

Dr. KAUFFMAN. The only thing I would add on that is to the extent that the mandate that came out last week would have been maybe a bit below what was originally proposed a number of years ago in terms of ethanol production. But I would add there that the ethanol industry has been producing ethanol even absent some of those mandates has been a relatively profitable industry. So it is maybe a question more about what that means for the long term.

Mr. WALZ. Great. Well, I appreciate it. Well, I thank the Chairman. I thank each of you. Very helpful. Great insights. It gives us at least a place to start, going forward, as we talk to our constituents.

I yield back.

The CHAIRMAN. I thank the gentleman, and before I close, without objection, I will recognize Mr. LaMalfa for a quick question.

Mr. LAMALFA. Okay. Thank you again, Mr. Chairman. I appreciate that. I just wanted to follow up one more time, Mr. Brantley.

As we are hearing on TPP, the proposal, the report is maybe 50,000 to 70,000 tons annually of limited new access to Japan for rice. Now, as I run those numbers, we make about 4 tons per acre on my operation. Most my neighbors do somewhere around there. And so that would be about 12,500 acres worth of production would be the new big wide opening that we would be having under TPP. Me and four or five other growers could fill that out. What kind of faith does that put you in the value of TPP for U.S. rice?

Mr. BRANTLEY. It is going to be hard to support at those levels. We have to have a significant increase for our industry to support that. I get what you are saying. It is only you and three others could produce that, but we were left out of the Korean Free Trade Agreement, and it appears that is happening here today. Without a significant increase, it will be hard for our industry to support it.

Mr. LAMALFA. All right. Okay. I hear you.

Again, thank you, Mr. Chairman. I appreciate your indulgence on that. I just wanted to get that one shot in there.

And, Mr. Combs, we also feel your pain on the idea that if we have a severe drought, you are not just going to be down 15 percent in sales, I don't see how you sell anything on what is coming down the pike. And I have, me and others, have come hunting tractors in your country a couple years ago, because you guys don't wear them all out before you resell them. So we appreciate that. Thank you.

Mr. COMBS. Keep coming.

The CHAIRMAN. I thank the gentleman, and before we close, Dr. Kauffman, I appreciate you being here today and giving us the sort of the economic perspective on the dynamics of the farm economy. You don't have to answer this question. I want to, primarily, get feedback from our producers here.

Just one final question, and we have heard a recurring theme today about government regulations, among other things, and that tends to be one of those topics that comes up any time we assemble a group of producers.

But let me ask you this: I would be remiss if I didn't get your perspective on WOTUS, on the *Waters of the U.S.* rule. So let me just ask you this individually. I will start with you, Mr. Combs, do you support or oppose the rule, and would you support repeal of the rule?

Mr. COMBS. I oppose the rule. I would support repeal, we have farms in our family that have been in our family for over 100 years. We are going to take care of that land, and we don't need somebody in Washington telling us how to dig a ditch on a farm to get rid of some water.

The CHAIRMAN. Thank you.

Mr. Verett?

Mr. VERETT. We oppose the rule and we would support legislation to repeal.

The CHAIRMAN. Thank you sir.

Mr. Brantley?

Mr. BRANTLEY. I would concur. Support the rule and oppose the repeal. I am sorry. I agree with what these gentlemen said. As Paul said, we are the greatest conservationists around. We know what we are doing. We would like to work with our agencies to conserve water, to improve quality and quantity, and we have pretty good track record of what we are doing.

The CHAIRMAN. Thank you.

Mr. Paap?

Mr. PAAP. The driveway I drove out of last night is the same driveway our family used 116 years ago. Hopefully we are going to use it the next 116 years. Certainly water quality, air quality, soil quality is all top priorities for us in agriculture. We don't believe from a Farm Bureau perspective and personally it is not the agency's job to do an end around Congress. That is the reason we have Congress, committees, hearings like this. It is not the agency's job to create laws.

The CHAIRMAN. Thank you, gentlemen. I want to again extend our gratitude to you for being here today, and I appreciate your insights. I think this has been a very valuable hearing and I appreciate you being here.

Under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witnesses to any questions posed by a Member.

This Subcommittee on General Farm Commodities and Risk Management hearing is now adjourned.

[Whereupon, at 11:44 a.m., the Subcommittee was adjourned.]